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CIS

DEBT COLLECTION IN THE HEALTH PROFESSIONS STUDENT LOAN PROGRAM

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

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DEBT COLLECTION IN THE HEALTH PROFESSIONS STUDENT LOAN PROGRAM

TUESDAY, DECEMBER 8, 1981

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The committee met at 9 a.m., in room 5110, Dirksen Senate Office Building, Hon. Charles H. Percy presiding.

Present: Senators Percy, Cohen, Mattingly, and Sasser.

OPENING STATEMENT OF SENATOR PERCY

Senator PERCY. I welcome all of you this morning at this hearing of the Governmental Affairs Committee on the high delinquency rate in the Federal health professions student loan program.

I think we all wonder every morning what we are going to see in the paper of some startling nature. The startling one this morning was the blaring headline, "Federal Deficit to Equal $109 billion in Fiscal Year 1982, $152 billion in Fiscal Year 1983, and $162 billion in 1984." That is after the Congress has spent a full year cutting more budgets and more programs than we have in the history of the Congress.

This morning I had breakfast with the Vice Premier of Poland, our Ambassador to Poland, their Ambassador to us, and their Minister of Planning. The five of us just went over the excruciatingly painful problems faced by the people of Poland, particularly this winter, and the food shortage and assistance and help they hope the international community and especially the United States of America can offer to them. I had to tell them about some of the problems we face financially today.

What we are addressing in the debt collection bill of 1981, which when I entered this year I found a very warm and cordial response from the administration, is to find some way that we, as the largest lending organization in the world, the U.S. Government, can find a way to reduce the delinquency rate and default rate on its debts.

We simply can't loan money out and help other people, domestically or abroad, if those to whom we have already given and extended help do not pay back. It is a fault of the Congress, it is a fault of the executive branch of Government, it is a fault of the organizations to whom we look for assistance and help in this regard, and those to whom the credit has been extended. No bank could stay in business if it didn't have a good return rate on those to whom they loaned credit. The bank will go bankrupt and it will not fulfill its function. That is the whole purpose of this hearing.

What we are doing this morning is to focus on one area of the professional services, health professionals, which have notably, as everyone knows, a fairly high level of income once they have completed their education. The objective has always been backed up and supported strongly by the Congress, by every President, and by myself—to make certain that we have the finest medical care we can have in the world and to make certain that a student is not deprived of the ability to go into the health care services, whether it be at the doctor level or professional nurse, because of their own financial circumstances.

Now we look at that profession and see what help we have extended, and we focus back on what are they going to pay us back.

Today's hearing will therefore focus on the high delinquency rates in the Federal health professions student loan program. It was a little more than 1 year ago that this committee first heard testimony describing the magnitude of the Federal Government's debt collection problems. Currently, notwithstanding the significant progress made by the Reagan administration in this area, there are now more than $34 billion in delinquent debts owed Uncle Sam. That amounts to over $300 for every single taxpayer in this country.

The health professions student loan program is just a small piece of the overall problem of delinquent debts. Yet it provides a vivid example of how a worthwhile and potentially financially sound loan program can be crippled by placing primary emphasis on getting the money out to the borrowers, with little concern evidenced for collecting it promptly once it becomes due.

The health professions and nursing student loan programs have provided $650 million in direct loans to medical, dental, nursing, and other health profession students since 1963. The program was created, in part, to give students from low-income families an opportunity to become health professionals.

Like so many Government loan programs, the terms of the loan agreements have been eased to broaden eligibility and provide more opportunities for deferments and cancellations. The Government has bent over backward to make it easy and affordable for these students to pay back their loans. For example, after graduation from medical school, doctors who have received these loans do not have to pay back one dime of principal or interest until they have finished all of their postgraduate training—up to 10 years in some cases. Most of the doctors in repayment now have loans at a heavily subsidized 3 percent interest rate.

But, unlike many Government loan programs where the U.S. Government may take some risk in lending to borrowers, those in the health professions have excellent opportunities for making a good living—everyone in this country knows that.

Given these factors, one would expect this program to have among the very lowest delinquency rates. I am sorry to report that this simply is not the case. According to HHS reports, based on information supplied by the schools, of 167,000 health professional borrowers who are now supposed to be in repayment, more than 50,000—almost 1 out of every 3—are seriously delinquent or in default. The face value of these outstanding loans exceeds $63 million. In one nursing program, associate nursing, over 56 percent of all loans in repayment status are more than 90 days overdue.

While medical schools have fared better than many of the other health professions in collecting the loans, their average 16 percent delinquency and default rate is way too high for such a high-paid profession. Some medical schools have extremely high delinquency rates. For example, 17 out of the 82 medical schools participating in the loan program have delinquency rates ranging from 20 percent to over 60 percent. According to a GAO sample of delinquent doctors and dentists, most are well established in their medical practices and are perfectly capable of paying these loans back on time. Seventy-three percent had excellent credit ratings in the private sector. In other words, they pay back the private sector. They do not pay back their own Government that made possible through education the very positions that they now hold.

In one typical case, a doctor, educated at a prestigious university, was a year and a half behind in repaying his $7,963 medical school loan—yet he subsequently obtained a car loan for $11,000 and a home improvement loan for $25,000 and had a $4,500 line of credit with seven banks and department stores. At two prestigious schools we found that 83 percent of the doctors who were delinquent on their medical school loans had perfect credit histories in the private sector—they had never missed a payment on all of their other loans. The only loans they would default on were the Government loans that again made it possible for their present high income. They could not have gotten that education and that degree unless they had had help from their Government.

My purpose in pursuing this investigation and hearing is not to be critical of the health professions or the schools participating in the loan program. I believe that the concept of this loan program is a sound one, a good one—and we would do it again. It has provided thousands of low-income students a chance to enter professions that they could only have dreamed of without Federal assistance, and the majority of them are paying back their loans faithfully.

However, I have no sympathy with those who, after completing their education at the taxpayer's expense, callously fail to honor their commitment to repay their loans promptly—especially when the vast majority of them are making a good living and pay all of their other debts on time. I have absolutely no sympathy with a Government that doesn't look upon our job of running the business of Government like a business. In this regard the Congress has been derelict, the executive branch has been derelict. We have simply not followed through.

Therefore, I do not suggest that this program be ended but, rather, that we end sloppy and unaggressive collection practices. If these loans are not repaid on time, funds may not be available for needy students in the future or the Government must borrow additional money at high interest rates to provide that funding.

It is high time that these debtors get the message that their loan from Uncle Sam is not a gift. It was never so intended. In the private sector, if you fall behind on a loan, you know that you are going to get a letter or a phone call right away. If you get a little further behind, a collection agency is going to be contacting you. If that doesn't do it, you may very well have a subpena in your mailbox. A credit bureau will list you as a delinquent payment and you can't get credit from anyplace else in the private sector until you pay up. These Government debtors have got to know that if they don't pay

the Government on time for their loans, they will face the same consequences as they do if they don't pay their mortgage. Unfortunately, this often isn't the case in this program, as we know by the fact that there are hundreds of people drawing paychecks every single month from the Federal Government, who are in default on their Government loans. They are sitting there on Government payrolls and not paying back their own Government. So these are the kinds of examples we will focus on this morning.

I simply won't accept that we can't do better in collecting these loans. Some schools have done an outstanding job. Georgetown University has only a 4.5-percent delinquency rate, which would really accord with private sector standards, I believe.

I look forward to hearing the testimony of our witnesses today. I hope that as a result of this hearing we can make collections in the health professions program as high a priority as getting the money out has been in the past.

Senator Cohen, we are very happy to have you here. Any opening statement?

Senator COHEN. No statement. Thank you, Mr. Chairman.

Senator PERCY. Our first witness is Mr. Wilbur D. Campbell, Acting Director of the Accounting and Financial Management Division of the General Accounting Office.

Mr. Campbell, I would like to welcome you and your staff this morning. I would appreciate your identifying the staff that will be with you.

Through the fine work the GAO has done in this investigation, once again you have proven how indispensable the Comptroller General and the GAO are to the U.S. Government and the U.S. taxpayer. I simply could not have functioned 15 years as a Senator without the Comptroller General as a right arm of the Congress.

This is the fourth hearing in the last year that this committee has held on the problem of Federal debt collection. GAO has been here to testify at each one of them. It is the GAO that brought this problem to our attention in the first place. We are grateful for your outstanding work in this area. We look forward to your testimony.

Your formal statement, Mr. Campbell, is an excellent one. I have gone over it in detail. It will be included in the full hearing record. We have so many witnesses to hear this morning, and your testimony in full will be available to all of them, that I would be very grateful if you could summarize your statement. Would it be possible to do that in about 10 minutes?

Mr. CAMPBELL. Yes.

Senator PERCY. Fine. Thank you.

TESTIMONY OF WILBUR D. CAMPBELL, ACTING DIRECTOR OF THE ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY JEFF STEINHOFF, GROUP DIRECTOR

Mr. CAMPBELL. Thank you very much, Mr. Chairman. Thank you for the kind words as well.

If I might take a minute to introduce my colleagues here. On my right is Mr. Jeff Steinhoff, Group Director for the debt collection area. On his right is Ms. Marge Lange and on my left is Mr. Darby

Smith, both of whom were intimately involved in this job we are going to discuss this morning.

We are here at your request today to discuss our work in reviewing the health professions and nursing student loan programs. We appreciate your longstanding interest and support of our efforts to improve the collection of debts owed the Government.

We have testified, as you mentioned, before this committee on several occasions on problems the Federal Government has in collecting its debts and in support of the comprehensive debt collection legislation which you have introduced, S. 1249. Passage of this legislation, as well as increased emphasis by agency heads on debt management, are the keys to resolving the Government's longstanding problems in this area.

Today I will discuss the specific problems identified in an ongoing review you requested at the Department of Health and Human Services and at selected schools regarding the administration of the health professions and nursing student loan programs.

Before beginning, I would like to note that the problems in these programs are not new but were previously identified by GAO in a May 1974 report entitled "Congressional Objectives of Federal Loans and Scholarships to Health Profession Students Are Not Being Met." Nor are the problems unique to these two loan programs. Instead, they are representative of a general lack of priority given to debt collection by the Federal Government. In the past, emphasis was given, as you noted, to the disbursement of program funds and not to their collection.

Based on data reported to HSA by about 750 of the over 1,000 actively participating institutions, as of June 30, 1981, over 50,000, or 30 percent, of about 167,000 health professions and nursing student borrowers in loan repayment status were delinquent 90 days or more in making payments. The delinquency rate for borrowers from various disciplines ranged from a low of 6 percent for osteopathic medicine to a high of 56 percent for associate nursing student borrowers. The amount of the outstanding delinquent principal exceeded $63 million and the delinquent payments totaled over $26 million.

The 23 participating schools we reviewed generally contributed to this high rate of delinquency by not placing sufficient emphasis on the billing and collecting of outstanding loans. We found that they did not always use due diligence in their collection programs as required by agency program regulations. For example, promissory notes were not properly controlled, exit interviews were not always conducted, borrowers were not properly billed, and followup action on delinquent debts was not adequate.

We also noted that institutions held large amounts of cash at the end of the academic year, with some investing program funds, but not returning the earnings to the program as required.

In addition, we found that HSA had not effectively monitored either the institutions' collection activities or their accumulation of large amounts of cash. Further, agency accounting records for the programs were not reliable. At best, the agency made only token efforts to control the funds for the two programs.

As noted by you, many of the borrowers of delinquent loans were well able to pay. Many had a history of paying their private sector debts. We requested as part of our audit, credit reports from a major

credit bureau for 100 randomly selected delinquent borrowers from 22 of the 23 schools. Credit reports were available for 54 borrowers. The other 46 borrowers in the sample may have had a credit report at a bureau other than the one we used.

Our review of those credit reports for delinquent borrowers showed that 39, or 72 percent, of the borrowers had what we considered good credit reports; 31, or 57 percent, had been extended private sector credit which exceeded the amount of their outstanding debts to the schools. Private sector creditors had, therefore, determined that these borrowers had the ability to repay an amount at least equal to the amount of their delinquent student loans.

Some specific examples of delinquent borrowers with good commercial credit reports are as follows:

One borrower, delinquent for over 7 years on a student loan with a balance of $5,288, had recently obtained a loan of $220,000 to purchase real estate.

Another borrower, delinquent over 3 years on a student loan with a balance of $2,940, had paid off two commercial loans for $13,200, was current on a $56,000 loan to purchase real estate, and had a line of credit for $7,700 with several banks and department stores.

In our view, the Department of Health and Human Services' inadequate administration of the programs is one of the primary reasons for the problems at the schools. Our May 174 report outlined debt collection problems at participating schools for the health professions loan program similar to those identified during our current review.

We recommended that the Department encourage schools to aggressively collect loans and closely monitor the schools' collection efforts. The agency said at that time that it would more aggressively monitor the program, acknowledging it had depended too heavily on the schools to use good management procedures, and that it had devoted inadequate resources to monitor the schools.

However, it did not follow through on these promises. Program officials attributed their continued failure to properly oversee the two programs to the lack of staff resources and to the low priority placed on the collection function.

In summary, the Department of Health and Human Services must continuously and effectively monitor how the schools administer the loan programs and take the required measures to assure that only those schools that adhere to program guidelines are allowed to continue in the programs. The agency also must improve its accounting for the two loan funds. Otherwise the agency will have no assurance that all moneys due the Government are properly repaid.

This concludes a summary of my prepared statement, Mr. Chairman. We would be happy to respond to any questions you may have.

Senator PERCY. Thank you very much indeed.

Mr. Campbell, you have indicated that of 167,000 borrowers in this program, 50,000 are 90-days delinquent or more. I would certainly consider if they were delinquent 90 days or more, they are delinquent accounts.

I have never known a director of any bank that wouldn't consider those delinquent. We have one university that believes that only those

who have stopped making payments entirely are delinquent. Is that entirely different from your standard that you have established, that you consider anyone 90 days or more who haven't made payments delinquent?

Mr. CAMPBELL. No, sir. I think generally if a borrower defaults in his payment, in most instances the total note, as you well know, becomes due and payable. Different lending institutions, I assume, use different criteria for what is a delinquent account, whether it is 30 days past due or 90 days past due or 120. In any event, he has defaulted, and I would assume unless the borrower has made other arrangements with the lender. is paving on a periodic, regularly scheduled, approved basis, he is delinquent.

Senator PERCY. Generally, how does the management of the health professions loan program at HHS compare with the management of the better known student loan program under the Department of Education?

Mr. CAMPBELL. It is very difficult to make comparisons of this type because of the different objectives and goals and criteria. As you know, the whole debt collection process in the Federal Government has been abysmal. We have testified to that effect several times.

We have taken a look at the guaranteed and national direct student loan programs. While these programs do accumulate data that is used for management of the program, which is not being done in the two programs discussed this morning, you would have to say that we have a bad situation.

Senator PERCY. So that really the health professions loan program is worse, in your judgment, or the record is worse than the record for the Department of Education program?

Mr. CAMPBELL. It is difficult, Mr. Chairman, to make a flat statement like that because I really haven't looked that closely at some of the other programs in terms of the statistics. But I would say equally as bad.

Senator PERCY. I have considered, as I pointed out, that the Department of Education program overall has been a disaster really and something has to be done. So they are both in about the same category then.

You have indicated that several parties are to be blamed for high delinquency rates in the program—HHS for their lack of oversight, the schools for placing lower priority on collections, and the borrowers themselves. I would like to add once again another guilty party. I do think the Congress has a share of this guilt. We seem so anxious to get together loan programs to solve some sort of a social problem, noble and worthy that it is; at the same time. we go full speed ahead with enacting the social program without really thinking how the Congress and how we would expect the executive branch to manage the program—or, in this case, how the money is to be collected.

First, which of these parties in your opinion is primarily responsible for these high delinquency rates?

Mr. CAMPBELL. It is difficult to point the finger at one of those parties as being the greatest culprit. They are all players who have a major role in the process.

In the final analysis, however, we are talking about public funds, and one has to assume that it is the responsibility of the Federal agency to provide the overall oversight of the program. It is also the responsibility of the school to assure that the loans are made in accordance with the criteria, that eligible students receive the loans, and the money is properly collected and repaid to the Federal Government. The student himself has a moral obligation. As you well indicated, he has received the benefit of the public funds to further his education. He was a responsibility to repay.

With respect to the Congress, I think you are right, the Congress does play a major role here. There are many things they could do, one of which would be to enact your bill. That would do a lot of things in terms of tightening up and requiring annual reporting on delinquent loans, interest collections, and reporting to credit bureaus, et cetera. Congress could do such things as legislating penalties which would take away some of the incentive to not make payments. Also, I think a major factor the Congress could contribute is through continued oversight, such as this hearing today, to focus on the need for action to reduce the Federal debt.

Senator PERCY. Do you think that enactment of the Debt Collection Act of 1981 will cause, let's say, doctors, other creditors, to put Uncle Sam at the top of their list of creditors rather than at the bottom of the list, as it now appears to be?

Mr. CAMPBELL. I certainly do, Mr. Chairman. I think it would provide the incentive to repay and it would provide the lender or the administering agencies the tools with which to bring about better collection.

Senator PERCY. You indicated that in 1974 the Comptrolier General made many of the same recommendations for improving management of this program that you are making to us today. Did HHS implement any of your major recommendations contained in the 1974 report? If so, when?

Mr. CAMPBELL. No, sir. They have been very slow. They had indicated that they were going to do an assessment, onsite assessment, every 3 years, which would be about 400 a year—1977 through 1978 they were not able to achieve that and in 1979 through 1980 they did even less. They have just recently begun, as of I think June 1981, to place emphasis on some of those onsite assessments.

They still have a backlog in reviewing the operating reports submitted for the purpose of determining how effective some of the schools are. I would have to say that the response has not been adequate to the previous report.

Senator PERCY. As you know, there has been a considerable amount of controversy surrounding how to calculate the delinquency rates for this program in general and for the schools in particular. This is primarily due to the fact that the program has few, if any, guidelines for determining these rates.

For example, schools have claimed that some of their accounts have not been paid back as originally agreed to because the schools themselves have made various billing mistakes, such as sending a bill for only half the amount due or just not billing at all. Would GAO still consider these accounts to be delinquent or overdue even if the school rather than the borrower was at fault?

Mr. CAMPBELL. Yes, sir. I think one has to assume that. No question about it.

Senator PERCY. In other words, the terms are the terms of the borrower.

Mr. CAMPBELL. That is right.

Senator PERCY. If the school is the agent for the Government to collect, and the school has made a mistake, that doesn't make it necessarily delinquent.

Mr. CAMPBELL. That is correct.

Senator PERCY. The loaner has not gotten the money back, the Treasury.

GAO has reviewed the most recent available information regarding the three schools which are testifying here this morning—Loyola, Howard, and Harvard Universities. Could you please say for the record what the GAO considers to be the loan delinquency rates for these three schools?

Mr. CAMPBELL. The data that we have as a result of our audit for Loyola was 16 percent, for Howard 67 percent, and for Harvard it was 24 percent.

Senator PERCY. One last question for Mr. Steinhoff. You have been closely involved with many studies for Federal credit programs and have worked with OMB on this. If a borrower in this program is making some payments but is not current in paying his loan, is he still not considered delinquent?

Mr. STEINHOFF. If the student is not current, he would still be a delinquent debtor. That is the kind of borrower you would especially want to look at, someone who was behind in their payments.

Senator PERCY. Thank you very much.

Senator Cohen?

Senator COHEN. Just a couple of questions, Mr. Chairman.

Would it be fair to say that this process that we have is in a state of shambles as far as the collection of our debts?

Mr. CAMPBELL. You are talking about these two programs or governmentwide?

Senator COHEN. Well, we will start with these two programs.

Mr. CAMPBELL. Yes, sir. I would have to conclude that based on our review of these 23 schools, plus other data from other schools, it is a pretty chaotic situation.

Senator COHEN. There is no interest, has been no exhibited interest, in collecting the debts. There have been no procedures, no written guidelines followed by the schools. There has been no oversight by the Department of Health and Human Services.

On page 15 you indicate the problem has been compounded by the agency's lack of accounting records which even show the financial status of the loan programs. So it is fair to say we have no interest, no mechanism, and no progress available to even collect the debts under the current system.

Mr. CAMPBELL. All of the above, yes, sir.

Senator COHEN. How do you account for the difference in the delinquency rates you just mentioned for Loyola, Howard, and Harvard? I think you said it was 16, 67, and 24 percent.

Mr. CAMPBELL. In the course of our audit, we did not attempt to get into the assessment of why, why one was higher or lower.

Senator COHEN. Wouldn't that have been important to find out what procedures were instituted by each university, or lack of them?

Mr. CAMPBELL. Basically, I think we can put our fingers on those procedures which have a contributing factor. For example, the exit conference is a very important factor for a couple of reasons. One, it assures that the student when he leaves is aware that he has a debt and when the debt is due. It provides the school an opportunity to get a current address, place of employment, those types of things. And, for the most part, those exit conferences were not taking place.

Other factors are such things as whether or not the school actively bills the student once he leaves the school. This is not like a loan from a bank where you borrow the money on June 10 and you know your first payment is due July 10 and you pay the 10th of every month. It may be several years, depending upon additional training, before the first payment becomes due. It is important that the institution have an adequate billing process.

Senator COHEN. Would it be fair to say that we have allowed to take hold in this country the notion that a student loan is in fact a sort of grant, it is part of the obligation of the country to educate our children, that there is no moral obligation or legal obligation to repay them? Haven't we contributed to that notion?

Mr. CAMPBELL. I would certainly say that if neither the Government nor the lender ever bills the recipient, he is prone to conclude that there is no interest in repayment, yes.

Senator COHEN. Would you agree we have allowed, either through inaction, inattention, or simple negligence, or whatever, the fusion of those two ideas, a loan to be equal to a grant which never has to be repaid?

Mr. CAMPBELL. Yes, sir. I do think there is a mind set along that line.

Senator COHEN. And we all, as Senator Percy has indicated, have to bear our measure of responsibility for accepting that judgment since all of us have contributed to it by not doing enough.

For example, it occurs to me, wouldn't it be one of your reommendations that those schools that have the highest delinquency rates be penalized in terms of the amount of money that would be available or allocated to their programs in the following years?

Mr. CAMPBELL. Yes, sir. The agency, as I understand it, can actually require that those moneys be repaid on a finding that the institution has not exercised due diligence in collecting.

Senator COHEN. But, of course, it can't do that because the agency doesn't have records itself.

Mr. CAMPBELL. That is certainly a problem, yes.

Senator COHEN. Thank you, Mr. Chairman.

Senator PERCY. I wonder also, is there any standard requirement that universities, when students graduate, sit down with those students, work out a repayment schedule, and get a commitment from that student that he will adhere to that schedule? Do you find that practice being followed?

Mr. CAMPBELL. Let me yield to my colleagues who did the audit. Would either one of you care to address that?

Senator COHEN. Mr. Chairman, could I go back, when you finish, to those three schools and how they account for the differences?

Senator PERCY. Yes.

Mr. STEINHOFF. We found that of the 23 schools we visited, only one had documentation showing that all the exit interviews had in fact been held. We found that only one-half of the 1,400 borrowers had in fact had a record that someone had sat down with them at the time they left school to work out the types of things Senator Cohen mentioned; for instance, to set the repayment schedule and, most importantly, to remind the debtor that this loan is something down the road they are expected to pay back, and to get a mailing address from the debtor. We found subsequent locating of the debtor to be a special problem.

Senator COHEN. But go back to the three schools. You gave the comparison as 16 percent, 67 percent, and 24 percent. How do you account for that difference? What does your examination show?

Mr. STEINHOFF. All schools we visited failed to comply with some of the requirements of due diligence. In other words, they all had certain things they needed to do to strengthen their debt collection.

I would say that delinquency rates reflect the degree of debt collection effort. There is nothing else I can really say. It is very hard to say that one school should have a 67-percent delinquency rate versus another school with a 16-percent rate. There were schools such as Georgetown which had a 4.5-percent delinquency rate. I would say it would reflect on the overall effort of the school.

Senator COHEN. Thank you.

Senator PERCY. Thank you very much, Senator Cohen. I thank you also for your cosponsorship of the Debt Collection Act of 1981. Senator Sasser also is a strong supporter of it and a strong fighter for efficiency in Government. We are pleased to have you with us this morning. Do you have some questions?

OPENING STATEMENT OF SENATOR SASSER

Senator SASSER. Thank you, Mr. Chairman. I would like to commend you for continuing these committee hearings on what I think is a massive problem of the collection of delinquent debts that are owed to the Federal Government.

As the chairman has indicated, I have been interested in this for some time. I was the prime sponsor of the debt collection legislation in the 96th Congress. I can still remember when we started that quest back in the 96th Congress, I offered an amendment to the Treasury and Postal Appropriations bill in conjunction with the General Accounting Office really, to start a pilot debt collection project with the cooperation of the Internal Revenue Service. What we were after was a pilot project to match IRS refunds against a selected group of individuals who owed debts to the Federal Government. If these debts had not been paid, then they simply would not get their IRS refund. If they owed the Federal Government $200 from a student loan or something else and had a $400 refund coming, then running this match between IRS and the debtor would mean that the amount of the debt would be deducted from their refund.

Well, that amendment came to the floor of the Senate and was defeated, defeated almost by a straight party line vote. Only one of my Republican colleagues voted for it at that time. That was Mr. Henry Bellmon. Henry is now retired. We miss him here.

But I was interested to hear on the radio yesterday driving home the administration is moving very strongly in the field of debt collection. The President was speaking in very strong terms about the necessity to collect the debts that are outstanding and owed the Federal Government.

So I am glad we are finally moving in that area, because I think it is long overdue and I think it has cost the taxpayers a considerable amount of money in the delay that has been occasioned so far.

Mr. Campbell, some have suggested that we not cut off loan authority for schools that have high delinquency rates. My question to you is if we did that on a school-by-school basis, wouldn't that make the schools more aggressive in collecting debts? If they knew they were going to be cut off from loan authority if they didn't collect their debts, it appears to me that would make them more aggressive in collecting the moneys that are owed to them.

Mr. CAMPBELL. There is no question about that, Senator Sasser. I think we have to keep in mind, though, that our skirts are not that clean as well, that the schools depend somewhat upon Federal agencies for guidance, for regulation, for oversight. I would think to move that way we would want to first give the institutions sufficient opportunity to clean its house and get its house in order.

Senator SASSER. You want to give them a chance to get the process straightened out before you would now come along and deny the loan authority to them.

Mr. CAMPBELL. Yes, sir; because probably if we went in overnight to take that action, I am not sure how many schools we would have left making such loans.

Senator SASSER. Many of the individuals who have been surveyed have considerable private lines of credit; that is, they owe money to private institutions. At the same time, they have Government loans that they are not repaying. The question is, these individuals who have Government loans that are delinquent, did they indicate, to your knowledge, to the private lenders that they had delinquent Government debts at the time they were seeking private credit?

Mr. STEINHOFF. In the credit reports we examined, there was no record of the Federal loan.

Senator SASSER. What effect would it have had on the private lender, in your opinion, if they had known that these individuals had delinquent Federal debts at the time they were seeking additional private credit?

Mr. CAMPBELL. I think it would have a significant impact. If any potential lender who obtains a credit report on a potential borrower and sees evidence the borrower has a poor credit rating, it will have a real impact on the extent to which he is willing to extend credit.

Senator SASSER. So you think the provision of the Debt Collection Act of 1981, which allows the Federal Government to report to private credit agencies when an individual is delinquent and this delinquency then getting on the individual's credit report, would have a good effect, No. 1, in making sure that that individual does not get additional private credit when they already have delinquent loans to the Government. I suspect it would have the impact of making that private individual pay that delinquent Government debt.

Mr. CAMPBELL. Yes, sir. The GAO has supported that on numerous occasions, as you well know.

Senator SASSER. In other words, if an individual goes down to borrow the money to buy a new automobile and the bank looks at that credit report and says, "Well, now, you haven't paid back Loyola University in a Government loan here for $800; we are not going to give you the credit to buy that new automobile," that would put the pressure on the individual to pay off that Government debt first and then he could come in or she could come in and get the credit for the private consumer item or whatever they wanted.

Mr. CAMPBELL. Yes, sir.

Senator SASSER. Your testimony also indicated that there are some very sloppy collection practices by some of the schools that have high delinquency rates—things like loss of the promissory notes themselves, the very instrument of credit, and tardy billing activities to those who owe the money, and that sort of thing. My question is, why has the Department of Health and Human Services been so late in moving to correct these practices? Where are these Inspectors General whom we saw getting medals pinned on them yesterday? Where have they been all of this time when these delinquent practices have been allowed to develop?

Mr. CAMPBELL. There are probably several factors contributing to that. One is that they are not making the onsite assessments that they should be making. Second, the annual operating report that is submitted provides some insight, or should provide insight, into the executive branch as to where the problems are in terms of delinquencies, in terms of writeoffs. I would think the fact there have been very few requests to write off bad debts would be an indicator.

The argument generally put forward is a lack of sufficient staff and a rather low priority placed on the collection of debts as opposed to the disbursement of funds as part of the ongoing program.

Senator SASSER. Mr. Campbell, your testimony offers, I think, a stinging indictment of medical school debt collection procedures. What are the prime causes of these lax procedures on the part of medical schools? Are medical school personnel adequately trained to collect debts? Do they get the professional assistance of private collection agencies? How do they go about it?

I put that question to you because we know that the products of these medical schools have an enormous earning capacity over their careers in relation to the average citizen in this country. I think it is incumbent upon us to see that the medical schools collect these debts that are owed. What is the problem there?

Mr. CAMPBELL. We found, for example, that very few of them used collection agencies. Of the 23 we looked at, I believe only 10 used collection agencies. None of those made referrals of delinquent debtors to credit bureaus. Very few ever resorted to legal action. Many of them were not billing the borrower when he became delinquent in any fashion. Some of them billed for the initial notice and never billed thereafter.

I think the reason this occurs is a direct result of the lack of oversight on the part of the Federal Government. If there is never any pressure brought to bear, no Federal presence, no audit, there is a

natural tendency I think in terms of one, where one places his priorities, to oil the squeaky wheel first, so to speak. I think that is a natural tendency.

Senator COHEN. Could I add one thought?

Senator SASSER. Sure.

Senator COHEN. Isn't the reason because the schools aren't in the business of collecting the Federal Government's money and they really don't want to bring lawsuits against students who might otherwise contribute to their schools in their fund-raising drives? Isn't that really the ultimate issue? They are saying:

If the Federal Government wants its money, let the Federal Government collect it. But why should we jeopardize our relationship with the students as alumni who might contribute to us when they become successful?

Mr. CAMPBELL. There is no question in my mind that is a factor. It is not really their money. They are administering it for someone else. You are absolutely correct. It has to have a bearing.

Senator SASSER. Thank you, Mr. Chairman.

Senator PERCY. Thank you very much indeed, Senator Sasser.

Thank you, Mr. Campbell. We appreciate you and your colleagues being here. Would it be possible for you, or at least one member of GAO, to stay for the remainder of the morning?

Mr. CAMPBELL. Absolutely.

Senator PERCY. We thank you very much indeed.

[Mr. Campbell's prepared statement follows:]

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED BY 9:30 A.M. EST
Tuesday, December 8, 1981

STATEMENT OF
WILBUR D. CAMPBELL
ACTING DIRECTOR
OF THE
ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION
BEFORE THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ON
IMPROVING THE COLLECTION OF DEBTS
OWED THE GOVERNMENT

Mr. Chairman and Members of the Committee:

We are here at your request to discuss our work in reviewing the Health Professions and Nursing Student Loan Programs. Mr. Chairman, we appreciate your longstanding interest and support of our efforts to improve the collection of debts owed the Government. We have testified before the Committee on several occasions on problems the Federal Government has in collecting its debts, and in support of the comprehensive debt collection legislation you have introduced--S.1249. Passage of this legislation, as well as increased emphasis by agency heads on debt management, are the keys to resolving the Government's longstanding problems in this area.

Today, I will discuss the specific problems identified in an ongoing review you requested at the Department of Health and Human Services and at selected schools regarding the administration of the Health Professions and Nursing Student

Loan programs. Before beginning, I would like to note that the problems in these programs are not new, but were previously identified by GAO in a May 1974 report titled "Congressional Objectives of Federal Loans and Scholarships to Health Profession Students Not Being Met" (B-164301). Nor are the problems unique to these two loan programs. Instead, they are representative of a general lack of priority given to debt collection by the Federal Government. In the past, emphasis was given to the disbursement of program funds and not to their collection.

PROGRAM DESCRIPTION AND ADMINISTRATION

In response to the anticipated national shortage of doctors, nurses, and other health professions, Congress enacted the Health Professions Student Loan Program (Public Law 88-129) in 1963 and the Nursing Student Loan Program (Public Law 88-581) in 1964. Federal funds have been given to approximately 1,400 participating institutions (over 1,000 institutions are currently active in the programs), with over $700 million provided since 1963. The President has not included additional funds for the programs in the fiscal 1982 budget submitted to Congress. However, under current legislation schools are allowed to reloan, until December 1986, monies they collect from former student loan recipients.

The Department of Health and Human Services has overall management responsibility for the programs, with the Health Services Administration (HSA) responsible for program administration. These responsibilities include awarding Federal funds

to participating institutions and monitoring their program operations to assure that the funds are used in accordance with Federal program and fiscal regulations. HSA also maintains summary accounting records for the programs and prepares financial reports for use by the agency and the Department of the Treasury. Participating schools are responsible for various other administrative tasks, including making loans to eligible students, collecting repayments, processing requests for loan deferments and cancellations, and requesting writeoffs of uncollectible loans. They are also responsible for annual reporting to HSA on the financial status of their loan programs.

SUFFICIENT EMPHASIS NOT PLACED ON FINANCIAL MANAGEMENT OF THE PROGRAMS

Based on data reported to HSA by about 750 of the over 1,000 actively participating institutions, as of June 30, 1981, over 50,000, or 30 percent, of about 167,000 health professions and nursing student borrowers in loan repayment status were delinquent 90 days or more in making payments. The delinquency rate for borrowers from various disciplines ranged from a low of 6 percent for osteopathic medicine to a high of 56 percent for associate nursing student borrowers. The amount of the outstanding delinquent principal exceeded $63 million and the delinquent payments totaled over $26 million.

The 23 participating schools we reviewed generally contributed to this high rate of delinquency by not placing sufficient emphasis on the billing and collecting of outstanding loans. We found that they did not always use "due diligence" in their

collection programs as required by agency program regulations. For instance:

--promissory notes were not properly controlled,

--exit interviews were not always conducted,

--borrowers were not properly billed, and

--followup action on delinquent debts was not adequate.

We also noted that institutions held large amounts of cash at the end of the academic year; with some investing program funds, but not returning the earnings to the program.

In addition, we found that HSA had not effectively monitored either the institutions' collection activities or their accumulation of large amounts of cash. Further, agency accounting records for the programs were not reliable. At best, the agency made only token efforts to control the funds for the two programs.

I will now discuss our findings in more detail.

SCHOOLS GENERALLY DID NOT COMPLY WITH DUE DILIGENCE REQUIREMENTS

Generally schools reviewed did not comply with all requirements of due diligence and had not placed sufficient attention on collection of student loans.

Lost and incomplete promissory notes

A properly completed and signed promissory note provides evidence that a debt exists, and is the legal document which commits borrowers to repay their obligations. Agency program guidelines state that promissory notes must be properly executed and safeguarded. Nevertheless, 6 of the 23 schools we reviewed could not locate or had misfiled promissory notes. At five

schools we found unsigned notes, while at two schools some borrowers signed incorrect notes. Such casual handling of the promissory notes jeopardizes the schools' ability to collect the loans.

Most schools neglect to complete exit interviews

A properly conducted exit interview is an effective tool in collecting a student loan, providing a school with a final opportunity to secure a borrower's correct address and the name and address of an employer, and to reaffirm the borrower's responsibility to repay the loan. Because of the importance of exit interviews for future collections, program guidelines specify that a written record of the interview be maintained. A July 1974 study for the Department of Health, Education, and Welfare found that schools having lower loan delinquency rates were more likely to conduct exit interviews with nearly all graduating borrowers and vice versa.

However, of the 23 schools we reviewed, only one had documentation indicating exit interviews were always conducted as required and, of about 1400 student borrower files we reviewed, over half did not have a record of a properly completed exit interview.

Borrowers not properly billed

Program regulations require that a borrower be notified approximately 15 to 30 days before the due date of the first required payment and all subsequent payments. But, eight of the schools reviewed had no evidence that borrowers were contacted prior to the due date of their first payment. More seriously,

some schools we visited did not bill all borrowers who were in repayment status or did not bill them regularly. For example:

--103 borrowers with total loans over $162,000, whom we found had graduated or left school, had not been placed on the school's billing system because the school believed the borrowers were still enrolled. For 66 of these borrowers, the first annual billing date had passed without the school having sent a bill.

--Some borrowers at another school had not been billed because the school's automated billing system did not function properly. Even though the school was aware of the problem, the bills had not been sent manually.

--Procedures at another school required annual billing; however, bills were sent sporadically when time permitted rather than on a systematic basis.

In addition, some schools failed to exhaust all means available to locate borrowers when payments were not received in a timely manner. For instance, one school, as a rule, made no additional efforts to contact borrowers once it established it had a wrong address. Furthermore, another school did not use retail credit or tracer organizations to obtain current addresses because it lacked sufficient staff. In addition to helping locate missing borrowers, these organizations can also aid the schools in determining the borrowers' ability to repay their debt.

Followup actions on delinquent loans are not adequate

Program guidelines specify that delinquent borrowers be contacted 15 days after a payment is due, to be followed by

two additional letters in 30-day intervals if the borrower still fails to make payment. We found that 12 of the 23 schools had no evidence that past due notices were sent to all delinquent borrowers and 7 schools, although mailing such notices, did so only sporadically. For example:

--One school mailed past due notices to less than 25 percent of delinquent borrowers whose files we sampled.

--Another school, although apparently contacting all delinquent students, often stopped their contacts for many months or even years even though the borrowers failed to make the required payments.

--At another school, we found no evidence of any collection activity for 7 of 30 randomly selected delinquent borrowers. Two of the seven borrowers were delinquent almost 19 months.

--Loan files at another school included complaints from borrowers stating that they had not made payments, one for over 3 years, because they had not been asked to do so by the school.

One factor contributing to these problems was that 15 of the 23 schools had no written procedures for collecting loans. The first step in establishing a viable debt collection program is development of written procedures. The lack of procedures as well as insufficient staff assigned to collection activities were, in our view, contributing factors to the high delinquency rates.

To supplement schools' collection efforts, program guidance calls for the use of collection agencies, credit bureaus, and

litigation. We found that the 23 schools generally were not using these collection tools:

--10 schools did not use the services of a collection agency.

--We found no evidence that any of the schools reviewed reported delinquent borrowers to credit bureaus, although program guidelines urge such reporting, stating that "notifying credit associations regarding an individual's credit rating has a salutory effect on most individuals whose payments are substantially overdue."

--6 schools did not refer delinquent loans to legal counsel, and our sample review of delinquent borrower files indicated that another 12 schools did so only rarely.

Many delinquent borrowers have good credit ratings in the private sector

Many borrowers with delinquent loans were able to pay. We obtained commercial credit bureau reports that indicated that many had a history of paying their private-sector creditors.

We requested credit reports from a major credit bureau for 100 randomly selected delinquent borrowers from 11 of the 23 schools. Credit reports were available for 54 borrowers--the other 46 borrowers in the sample may have had a credit report at a bureau other than the one we used. Our review of the credit reports for delinquent borrowers showed that

--39, or 72 percent, of the borrowers had what we considered good credit reports.

--31, or 57 percent, had been extended private sector credit

which exceeded the amount of their outstanding debts to the schools. Private-sector creditors had, therefore, determined that these borrowers had the ability to repay an amount at least equal to the amount of their delinquent student loans.

Some specific examples of delinquent borrowers with good commercial credit reports are as follows:

--One borrower, delinquent for over 7 years on a student loan with a balance of $3,288, had recently obtained a loan of $220,000 to purchase real estate.

--Another borrower, delinquent over 3 years on a student loan with a balance of $2,940, had paid off 2 commercial loans for $13,200, was current on a $56,000 loan to purchase real estate, and had a line of credit for $7,700 with several banks and department stores.

--A third borrower, with a Health Professions Student Loan balance of $7,000, delinquent for 10 months, was current on a $25,000 home improvement loan and a $12,400 automobile loan. In addition, three banks and a department store reported that the borrower had a line of credit amounting to $9,900.

These examples illustrate that many borrowers with delinquent student loans are repaying their commercial debts, and that schools have allowed them to ignore the repayment of their student loans with apparently little fear of reprisal, or any of the adverse actions which would normally result from not paying debts they owe to private-sector creditors.

SCHOOLS HELD LARGE AMOUNTS
OF IDLE PROGRAM FUNDS

Institutions participating in the two programs have been allowed to accumulate Federal funds in excess of their immediate needs. This is contrary to legislation for the programs and to Federal fiscal regulations, and, more importantly, costs the Treasury millions in interest annually.

In reviewing year-end cash balances reported by the 23 institutions we visited, we found that the amounts reported on the latest available annual operating reports ranged from a low of $1,000 to a high of $1.1 million, totaling $7.3 million for the 23 institutions. We also reviewed cash balances reported by 80 randomly selected schools and, based on that sample review, estimated that all schools actively participating in the two programs held a total of not less than $63 million in year-end cash balances. Allowing schools to hold this much cash could cost the Treasury about $6.3 million interest annually.

We found that annual program funds awarded to the schools were not based on need, and before June 1980, schools were actually encouraged to withdraw all Federal funds made available to them regardless of their current needs. For example,

--One school had unused program funds of about $613,000 at the beginning of the year and, during the same year, collected over $450,000 from prior loans made to students, increasing its loan fund to over $1 million. Although the school only made about $630,000 in new loans, it drew down $176,000 in additional Federal funds for that year.

--Another school had a beginning cash balance of almost $20,000. Although it only loaned about $15,500 during that year, it was given over $31,000 more in Federal funds for that year.

--Yet another school had a beginning cash balance of $176,000 for one of the loan programs. During the year the school loaned a total of $160,000 to eligible students, $16,000 less than the funds available at the start of the year. Nevertheless, the school withdrew an additional $90,000 of available Federal monies for the program during that same year.

In reviewing the 23 schools, we found that 10 of the schools left Federal program funds idle in non-interest bearing accounts. Of the 13 schools that invested program funds, only 1 school returned all and 2 schools returned part of the interest earnings from investments to the appropriate program. The remaining 10 schools used the interest income from invested Federal monies to finance other operations rather than making loans to eligible students. This does not meet the requirements of the law which states that any earnings of the fund must be returned to the program.

HEALTH AND HUMAN SERVICES HAS NOT ADEQUATELY MANAGED THE PROGRAMS

In our view, the Department of Health and Human Services' inadequate administration of the programs is one of the primary reasons for the problems at the schools. Our May 1974 report outlined debt collection problems at participating schools for the Health Professions Loan program similar to those identified

during our current review. We recommended that the Department (1) encourage schools to aggressively collect loans, and (2) closely monitor the schools' collection efforts. The agency said that it would more aggressively monitor the program, acknowledging it had depended too heavily on the schools to use good management procedures, and that it had devoted inadequate resources to monitor the schools.

However, it did not follow through. Program officials attributed their continued failure to properly oversee the two programs to the lack of staff resources, and to the low priority placed on the collection function.

Few onsite assessments have been performed

Onsite assessments of the schools' program administration have been sporadic and few. After we issued our May 1974 report showing that some schools were not properly administering their loan programs, the agency planned to perform onsite program assessments at each school every 3 years, or about 400 assessments annually. Less than 400 assessments, however, were performed during 1977 and 1978, and agency officials told us that very few assessments were completed during the following 2 years. The officials said that the primary cause for not doing the onsite assessments as planned was lack of sufficient resources. Of the 23 schools we reviewed, only 5 schools had an onsite assessment prior to June 1981, when the agency again resumed its onsite monitoring effort. We also found that the programs at 7 of the 23 schools had never been audited by anyone. Since June 1981, about 130 onsite assessments have been completed, with the

assessment reports currently being evaluated by agency staff.

Large backlog in reviewing annual operating reports

An annual operating report is required for each Health Professions and Nursing Student Loan program a school participates in. The report, if properly used, can be an effective monitoring tool to evaluate an institution's administration of the programs. Agency officials told us that they have not timely reviewed the annual operating reports received from participating schools because the agency lacked staff.

For example, as of March 1981, only 50 percent of the 300 health professions reports and only about 30 percent of the 1,100 nursing student reports for the 1980 school year had been reviewed. In addition, according to agency officials, many annual reports from previous years with "problems", such as discrepancies in the amount of program funds a school had withdrawn during the year, also had not been reviewed. The agency stopped reviewing reports in March 1981 and had not resumed the task by mid-November 1981 even though by that time it also had received 1981 annual reports for the approximately 1100 active institutions.

In December 1980, an agency task group recommended that an automated system be developed to process the schools' annual operating reports immediately upon receipt. It found that the manual review process the agency was using was painstakingly slow and that following up on errors found during the review was equally slow. To date, such a system has not been developed.

Uncollectible loans not reviewed

Before October 1980, program guidelines erroneously stated that legislation did not allow uncollectible loans to be written off until the end of the programs. Although the agency had changed its policy on this matter many years ago, it did not inform the schools of this change until October 1980. As a result, schools have submitted few requests to write off loans considered uncollectible.

As part of the request to write off an uncollectible loan, a school must document that it has followed due diligence in collecting the outstanding loan. By reviewing such evidence, the agency has an opportunity to monitor the schools' collection efforts. As of November 1981, however, only 23 schools had ever requested permission to write off a loan. In total, since inception of the programs nearly 20 years ago, only 150 uncollectible loans amounting to $190,000 have been submitted to the agency for permission to write off, and of these, only 55 loans amounting to $40,000 have been written off. Although well aware that only few schools had asked to write off loans, agency officials did not plan to encourage such requests, because they lack staff for reviewing loan writeoff requests.

Programs are rarely audited

The law (P.L. 95-623, November 9, 1978) requires that schools provide for a biennial audit of the Health Professions Student Loan Program to determine the fiscal condition of their programs and the adequacy of their management practices. This would provide the agency another tool to monitor the programs.

The first such audit was to have been completed by September 1, 1980, with audit reports submitted to the Department of Health and Human Services after completion. Program guidelines strongly recommend that the schools also provide for periodic audits of the Nursing Student Loan Program and that reports of such audits also be submitted to the agency.

However, as of November 1981, the agency had received reports from only 8 of the 300 schools participating in the Health Professions Program and from only 18 of the 1,100 schools in the Nursing Student Program. The agency has so far not followed up on the audit requirements and does not know if the schools have provided for the audits.

CURRENT FINANCIAL STATUS OF THE LOAN PROGRAMS IS UNKNOWN

Compounding the agency's lack of program oversight was the fact that the agency's accounting records did not accurately show the financial status of the loan programs. We found that the loans receivable balance--reported to be about $695 million as of July 1981--was overstated by many millions because:

--The agency had not recorded the Government's share of cancelled loans--estimated to be $66 million. As provided for under the programs, schools may cancel loans upon the death or permanent and total disability of a borrower, if borrowers practice their profession in an area designated as a shortage area, or, in the case of the Nursing Student Loan Program, for employment in a nonprofit agency. Although schools continually reported the amounts of annual loan cancellations, the agency recorded very few of

these cancellations in its accounting system.

--As discussed previously, the agency had written off only $40,000 in loans as uncollectible, even though some loans were delinquent more than 8 years and their collection in the future is unlikely, and

--The agency had not established an allowance for the amount of loans that will be cancelled and those that will be uncollectible in the future.

On the other hand, the loans receivable balance was understated by an undeterminable amount because the agency did not record interest earned on loans made to students. Schools are required to report the amount of their annual interest earnings on loan repayments. The agency, however, did not record this data in its accounting system and, therefore, had no idea of the amount of interest due the Government from the programs.

Further, distortions of the loans receivable balance occurred because schools were allowed to transfer monies--up to 20 percent of the annual award--from the loan funds to corresponding scholarship funds and vice versa. However, necessary adjustments to the agency accounting records may not be recorded until many years after the transfer of funds, and there was no assurance that all adjustments were made. In addition, we found that the agency had not recorded as a liability $3 million owed to participating schools in payment for their share of loans cancelled during the past several years.

In summary, the Department of Health and Human Services must continuously and effectively monitor how the schools administer the loan programs, and take the required measures to assure that only those schools that adhere to program guidelines are allowed to continue in the programs. The agency also must improve its accounting for the two loan funds. Otherwise, the agency will have no assurance that all monies due the Government are properly repaid.

This concludes my prepared statement. We would be happy to respond to any questions.

Senator PERCY. I say to my colleagues, regretfully at 11 a.m. our regular business meeting is being held in the Foreign Relations Committee. It is the only time during the week we report out nominations. I have to be down there. I would like in the next hour, if possible, to cover the three universities.

We will first call on Mr. Paul McFarland of Loyola University. He is vice president of finance for the university.

I want to welcome Mr. McFarland very much and express appreciation of the committee for your being here. I would like to mention we are aware of Loyola's outstanding medical program and the contribution it has made to the quality of health services in the Chicago area.

I understand in spite of the fact you have only been with Loyola a short time, you feel strongly about the importance of continuing to improve Loyola's loan collection program with the health professions student loan program.

The staff of this committee visited Loyola last month to see firsthand what you are doing to get these loans paid back. Your staff was very candid in explaining that at one time Loyola had some collection problems and some rather high delinquency rates, but now all reports are Loyola has instituted a highly professional and businesslike collection program. The result is that the money is coming back into the program due to improved collections and is increasing dramatically.

What you have done at Loyola is what we hope will be done throughout the program. I am sure that your testimony will serve as a positive example of how Government loans can be collected.

Mr. McFarland, your full testimony will go into the record, of course. About how long would it take you to present your testimony?

Mr. MCFARLAND. I hope to complete it in about 5 to 6 minutes.

Senator PERCY. Thank you very kindly. Please proceed. We also welcome Miss Bushman to the committee.

TESTIMONY OF PAUL G. McFARLAND, VICE PRESIDENT OF FINANCE, LOYOLA UNIVERSITY DENTAL SCHOOL, MAYWOOD, ILL., ACCOMPANIED BY MARY BUSHMAN, MANAGER, LOAN BILLING AND COLLECTIONS

Mr. MCFARLAND. I would like to introduce Miss Bushman. The fact I have only been at Loyola a very short period of time, I thought it would be very helpful for me and also for the committee members to bring in essence the person who is the expert on the issue. She is the manager of the loan billing and collections area of Loyola.

Senator PERCY. Thank you.

Mr. MCFARLAND. Loyola University of Chicago applauds the interest of this committee in overseeing the methods of collecting moneys lent under the health professions student loan program. Loyola appreciates the opportunity to testify today. I will in the next few minutes discuss the following points: One, the importance of the program to Loyola University; two, the progress we have made in improving our administration of the program; three, the reasons underlying that progress; and four, specific areas where we feel help is needed from others.

The medical health professions loan program is extremely important to Loyola University of Chicago. It enables the university to loan money to deserving men and women who could not possibly pay the high tuition cost of medical school today without this special assistance. Loyola is committed to a tradition of recruiting academically qualified students of low- and middle-income families, especially ethnic minorities and females. If the health professions loan programs would not be available, our future doctors could come of necessity almost exclusively from high-income families. The talents and abilities of a large sector of the American public would be excluded from contributing to the health care of our citizens.

Because the loan programs are so vital to the accomplishment of an important part of Loyola's mission, we are committed to carrying out our responsibilities in administering the programs in an efficient, businesslike manner. Since the loan funds are revolving funds, our degree of success in collecting loans affects the amount available for reloaning to other needy students.

Loyola University has made significant progress since 1978 in improving performance in the administration of all Federal student loan programs. We became aware that insufficient resources were being devoted to the billing and collection aspects of the loan program when, at the end of fiscal year 1978, the default rate of the national direct loan program, or NDSL, reached 28 percent, and the medical health professions loan program default rate was 23 percent.

Loyola felt that these rates were unacceptably high and also our internal program audit reports called attention to the high rates. All delinquency rates were calculated on the formula recommended for the NDSL program, since at that time the health professions loan programs did not provide a formula for determining loan delinquency.

In the summer of 1979 a special committee was appointed by the president of Loyola to review student loan program administration. The main recommendation was that additional people were needed and that all administrative effort after the loan was awarded be coordinated by the vice president of finance.

Professional staffing in the loan billing and collection areas was increased in 1979 from three to five people. In 1980 three additional staff were added. Thus, the people resources were increased from three to eight professionals in a 2-year period.

In addition to the increased staffing, a number of management actions have been taken to improve performance. We try to do things before loan payments become due which will increase the probabilities of timely payments by borrowers. The carefully planned entrance and exit interviews with student borrowers traditionally conducted for the medical loan program have been extended to all loan programs. Thus borrowers understand their repayment responsibilities before they get a loan and this understanding is reinforced before they leave school.

In 1980 we contracted with a loan billing service which uses sophisticated computer programs and provides us with accurate and timely management reports. Our professional collectors have online access to borrowers' loan status via computer terminals. Collection agencies are being used extensively and we are initiating legal action where warranted. We also make extensive use of credit bureau files for skip-tracing verification of borrower information.

The positive results of all our efforts have been substantial. The default rate in the NDSL program dropped from 28 percent in fiscal 1978 to 9 percent in fiscal 1981. Calculated on the same formula, the medical loan program rate dropped from 23 percent to 5 percent during the same period.

The Department of Health and Human Services has recently, as we are all aware, developed a formula for measuring loan delinquency in the medical loan program. The formula arrives at a percentage rate by dividing the number of borrowers more than 90 days overdue by the number of borrowers in a repayment status. Using this formula, Loyola had a delinquency rate, as reported here, of 16 percent on June 30, 1981. The default rate of 5 percent previously referred to uses dollars overdue rather than borrowers overdue and 120 days overdue rather than 90 days overdue. Loyola feels, and I personally feel, that a formula based on dollars overdue rather than borrowers overdue gives a more accurate picture of program performance. An important goal, after all is to collect and recycle dollars. Nevertheless, Loyola is committed to further improving our performance under any and all measurement standards.

Several things could be done to assist us in our efforts to reduce delinquencies. One area, already alluded to, regards the inconsistencies which exist in performance measurement methodology provided by the sponsoring Government agencies. This is but one example of what seems to be unnecessary variations in regulations and guidelines for the loan programs. Our people have to continuously sort out these variations and often have to try to explain the differences to borrowers who have loans under several programs. A greater uniformity among the various programs and agencies would definitely help us.

The NDSL program permits us to request and recieve borrowers' addresses from the Internal Revenue Service, but the procedure is not authorized for the health professions loan program. Again, under the NDSL program but not under the health professions program, we can notify credit bureaus of borrower delinquencies and thus provide our borrowers with a powerful incentive to avoid delinquency. The availability of these special tools in all programs would enhance our efforts.

Finally, I want to take this opportunity to tell this committee how much we appreciate the assistance provided to our needy students through the 90-percent federally funded medical loan program. The continuation and the success of the program are vital to our students and to our mission of medical education. We are fully committed to do what we can, in cooperation with the Government agencies and Congress, to insure the continuation and success of the program.

Thank you.

Senator PERCY. Thank you very much, Mr. McFarland. I just have three questions.

Could you first describe overall how much your delinquency rates have improved since June when the figures on the chart to the right were tabulated? How much have your collections improved?

Mr. MCFARLAND. Dollarwise?

Senator PERCY. Overall, yes.

Mr. MCFARLAND. We have in the last few years I think gone up from approximately $50,000 to $150,000 since 1978 in the amount recovered from principal and interest collected in the program. This

is really significant for Loyola because at that same time the Federal capital contribution from the Federal Government has been going down, as we all know, and the only way we have been able to keep the funding is by improving our performance in collecting.

Senator PERCY. Could you categorize that as to how it has improved by borrowers?

Mr. MCFARLAND. How it has improved by borrowers?

Senator PERCY. Yes.

Mr. MCFARLAND. I might now, if I could, turn to Miss Bushman and let her explain that.

Ms. BUSHMAN. Senator Percy, are you asking the number of borrowers we have had, the delinquency, that has been changed since June 30?

Senator PERCY. Yes.

Ms. BUSHMAN. Out of the 60 borrowers that we were showing a delinquency for on June 30, we have brought 28 of those people into current status. Twelve of them were through deferment forms that brought them entirely current. The other 16 were through payments that made them current. So within the first quarter of this fiscal year we were able to clear 28 of the 60 delinquencies.

Senator PERCY. So really what your whole program has demonstrated is that the borrowers really had the ability to pay back and they just didn't have the desire, or other things were always given higher priority and intervened.

Mr. MCFARLAND. Yes.

Senator PERCY. Other debts were being paid but this program was not being paid off.

Mr. MCFARLAND. I want to add that the university really felt that we wanted to be as responsive as we could. We really felt that the people resources were key for Loyola. I guess I don't want to speak to what we had assigned to this before, but we felt that the additional staffing certainly was the key to the program. And as you can see by the numbers, this appears to be the case.

Senator PERCY. In a sense, what you have really done is become tougher and more exacting and demanding in simply saying that what you have committed yourself to do, you have an obligation to do. When your debtors get a little behind, they get a letter right away.

Mr. MCFARLAND. Yes.

Senator PERCY. If they fall further behind, the collection agency will contact them. If that doesn't work, they get a subpena in the mailbox. That is an imposing piece of mail to wake up and get some morning.

Mr. MCFARLAND. I want to add to Senator Cohen's comment, when he said the program was in shambles and the schools were really not doing anything on that, I hated to hear that because I think Loyola, in my brief time there, looking at the resources we have put into it, has put considerable dollars and resources into the program in terms of the people and the resources we put into this new computer billing system. We are not small dollars from Loyola's standpoint. I think that has also improved the situation. I think Loyola is trying to address that, because we feel the program is vital for medical education.

Senator PERCY. Senator Cohen mentioned before something that seemed apparent. The word gets around among students that this really isn't a loan program. You sign a loan, but it is really a gift.

You have had to reverse that philosophy. You have had to change the thinking. That is what we are really trying to do is change the thinking of this country.

It is just like the IRS. You can always count on picking up the paper around the first of April and seeing some major income tax case, someone sent to the pokey, someone indicated. It just causes millions of taxpayers to realize the IRS does mean business. It is just their way of saying this is what is going to come to you. It could happen to you.

The same thing in reverse has happened here. With a lax program, the signal gets out that you really don't have to pay this back. It is 3 percent if you ever do pay it back. There is a very low cost to carry it.

So has it been a change of attitude and a get-tough, businesslike approach that Loyola has taken that has made the difference between a poor record and a much more responsible and respectable record?

Mr. McFARLAND. Yes. I think we could say that.

Senator PERCY. Finally, even with these improvements, according to your delinquency rate from June, there is still a fair number of doctors who are delinquent. Are the problems with this program the administration of the program that makes it difficult for Loyola to collect these debts on time, even with your excellent record of collection? Could you, for the record, perhaps analyze what changes you feel need to be made that can be made by us to tighten the program up? We won't take the time to do that this morning, but if you could supply that for the record, we will keep the record open long enough.

Senator Cohen?

Senator COHEN. Just a couple of quick points.

Mr. McFarland, I didn't mean to condemn your school with a condemnation of the lack of process that we currently have. In fact, I was trying to find out why you had a 16 percent, or 5 percent, depending upon which standard you use, delinquency rate compared to the 67 percent or the 24 percent for Harvard.

You mentioned that you have a revolving fund set up. Do all schools function the same way? In other words, your motivation did not come about through a—let me put this gently—it didn't come about principally through a moral concern for what is happening to these funds. You found you weren't getting enough back to keep this fund sufficiently supplied to loan to other students. It was really a question of necessity forcing you to take these measures, right?

Mr. McFARLAND. Correct.

Senator COHEN. Do the other schools have the same sort of setup, or do they let the funds go up and if the students repay the Federal Government, well, so be it?

Ms. BUSHMAN. If I could answer that. The program is set up as a revolving loan fund so that all institutions use the money that borrowers repay. So it is a revolving loan fund with all institutions by law.

Senator COHEN. It would seem, then, that every institution should have the same incentive that you found.

Ms. BUSHMAN. With the Federal capital contribution decreasing, as we know that the authorizations have been, if you are going to maintain your level of lending, the only way to do that is to increase your collections.

Senator COHEN. You decided that back in 1978.

Ms. BUSHMAN. That is correct.

Mr. MCFARLAND. Yes, sir.

Senator COHEN. Other institutions have apparently not done so as of this time. You don't have to make that judgment. We will make that judgment.

Thank you, Mr. Chairman.

Senator PERCY. Thank you, Senator Cohen.

Senator Sasser?

Senator SASSER. Thank you, Mr. Chairman.

Mr. McFarland, I take it from your testimony that collection agencies have been used extensively by Loyola University and that you are taking legal action in cases where it is warranted.

Mr. MCFARLAND. Yes, that is right, Senator.

Senator SASSER. Do you know of any other universities that might be using collection agencies at this point?

Ms. BUSHMAN. I certainly could answer that. Northwestern University in Chicago not only has in-house collectors, as we do, professional collectors, but they also use collection agencies. The University of Chicago has the same setup. Those are, for example, two universities in Chicago that have collection agencies. Northern Illinois University uses collection agencies. We share a collection agency with them.

Senator SASSER. How long has Loyola been using collection agencies?

Ms. BUSHMAN. We had a very heavy emphasis on our use of agencies since 1978, 1979. We have used them since the mid-1970's, but not as heavily as we do now.

Senator SASSER. When you turned to them for assistance, did your delinquency rate fall substantially or not?

Ms. BUSHMAN. We have four professional collectors in-house. We prefer to use our in-house collectors as a first resort. So that is what has made the difference in our delinquency rate. Going to collection agencies is really a matter of last resort for us. So certainly it has helped, but we feel that our own professional collectors have done more to help us than using outside collection agencies.

Senator SASSER. Once you turn it over to the outside collection agencies, you might as well forget about getting any contribution to the alumni fund. [Laughter.]

Ms. BUSHMAN. If I could comment on that, for the first 2 years that we were really using outside collection agencies heavily, we checked out alumni contributions against everyone we were turning over to an outside agency. We didn't find that there was one defaulted borrower who contributed to our alumni fund. So that is no longer a concern at Loyola. [Laughter.]

Senator SASSER. Thank you, Mr. Chairman.

Senator PERCY. Thank you, Senator Sasser.

Senator Mattingly?

Senator MATTINGLY. Just one short question. What was the delinquency rate prior to 1978? I haven't read this. I got here late. What was your delinquency rate prior to 1978?

Ms. BUSHMAN. Prior to 1978?

Senator MATTINGLY. Right.

Mr. MCFARLAND. It was 28 percent measured on June 30, 1978. But prior to that, I don't have the figures available. But it would be around that rate, I would think.

Senator MATTINGLY. What is it now?

Mr. MCFARLAND. It is 5 percent based on that same calculation.

I think I have my numbers confused slightly. It is 28 percent to 9 percent on the NSDL program and 23 percent to 5 percent on the health professions program.

Senator MATTINGLY. Thank you. Thank you, Mr. Chairman.

Senator PERCY. Thank you very kindly.

Thank you, Mr. McFarland and Miss Bushman, very much indeed.

[Mr. McFarland's prepared statement follows:]

LOYOLA UNIVERSITY OF CHICAGO

OFFICE OF THE VICE PRESIDENT—FINANCE

STATEMENT OF

PAUL G. MCFARLAND, VICE-PRESIDENT FINANCE

LOYOLA UNIVERSITY OF CHICAGO

TO THE

COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

WASHINGTON, D.C. DECEMBER 8, 1981

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

Loyola University of Chicago applauds the interest of this committee in overseeing the methods of collecting monies lent under the Health Professions Student Loan Program. Loyola appreciates the opportunity to testify today. I will, in the next few minutes, discuss the following points: (1) the importance of the program to Loyola University; (2) the progress we have made in improving our administration of the program; (3) the reasons underlying that progress; and (4) specific areas where we feel help is needed from others.

The Medical Health Professions Loan program is extremely important to Loyola University of Chicago. It enables the university to loan money to deserving men and women who could not possibly pay the high tuition cost of medical school today without this special assistance. Loyola is committed to a tradition of recruiting academically qualified students of low and middle income families, especially ethnic minorities and females. If the Health Professions loan programs would not be available, our future doctors could come of necessity almost exclusively from high income families. The talents and abilities of a large sector of the American public would be excluded from contributing to the health care of our citizens. In our opinion, this would not be in the best future interest of our country.

Because the loan programs are so vital to the accomplishment of an important part of Loyola's mission, we are committed to carrying out our responsibilities in administering the programs in an efficient, business-like manner. Since the loan funds are revolving funds, our degree of success in collecting loans affects the amount available for re-loaning to other needy students. It is therefore in our own best interest to have an effective collection program.

Loyola University has made significant progress since 1978 in improving performance in the administration of all federal student loan programs. We became aware that insufficient resources were being devoted to the billing and collection aspects of the loan programs when, at the end of fiscal year 1978, the default rate of

the National Direct Loan Program, or NDSL, reached 28%, and the medical Health Professions Loan Program default rate was 23%. Loyola felt that these rates were unacceptably high and internal program audit reports also called attention to the high rates. All delinquency rates were calculated on the formula recommended for the NDSL program, since the Health Professions Loan Programs did not provide a formula for determining loan delinquency at that time.

In the summer of 1979 a special committee was appointed by the President of Loyola to review student loan program administration. The main recommendation of the committee was that additional people be assigned and that all administrative effort after the loan was awarded be coordinated by the Vice-President of Finance. Professional staffing in the loan billing and collection areas was increased in 1979 from three to five people. In 1980, three additional staff were added. Thus, the people resources were increased from three to eight professionals in a two year period. In increasing the staffing, we insisted on acquiring people knowledgeable in the loan billing and collection area and we provided additional training.

In addition to the increased staffing, a number of management actions have been taken to improve performance. An important part of our approach has been to try to do things before loan payments become due which will increase the probabilities of timely payments by borrowers. The carefully planned entrance and exit interviews with student borrowers traditionally conducted for the medical loan program have been extended to all loan

programs. Thus borrowers understand their repayment responsibilities before they get a loan and this understanding is reinforced before they leave school. Student records are kept current to improve our ability to locate borrowers after they leave school. Correspondence from borrowers is answered promptly and responsively. In 1980 we contracted with a loan billing service which uses sophisticated computer programs and provides us with accurate and timely management reports. Our professional collectors have on-line access to borrowers' loan status via computer terminals. Collection agencies are being used extensively and we are initiating legal action where warranted. We also make extensive use of credit bureau files for skip-tracing and verification of borrower information.

The positive results of all our efforts have been substantial. The default rate in the NDSL program dropped from 28% in fiscal 1978 to 9% in fiscal 1981. Calculated on the same formula as the NDSL program, the medical loan program rate dropped from 23% to 5% during the same three year period. We expect to improve further as the cumulative and ongoing impact of our management actions and increased staffing take hold.

The Department of Health and Human Services has recently developed a formula for measuring loan delinquency in the medical loan program. The formula arrives at a percentage rate by dividing the number of borrowers more than 90 days overdue by the number of borrowers in a repayment status. Using this formula Loyola had a delinquency rate

of 11% on June 30, 1981. The default rate of 5% previously referred to uses dollars overdue rather than borrowers overdue and 120 days overdue rather than 90 days overdue. We feel that a formula based on dollars overdue rather than borrowers overdue gives a more accurate picture of program performance; an important goal, after all, is to collect and recycle dollars. Nevertheless we are committed to further improving our performance under any and all measurement standards.

Summarizing, we recognized a serious loan delinquency problem, and we have made great strides in alleviating the problem with two significant lines of action: (1) substantially increasing people resources and (2) developing and implementing specific policies and procedures which enabled the people to be more effective in improving performance.

We would now like to tell you of several things that Loyola feels could be done to assist us in our internal efforts to improve the loan delinquency problem. One area, already alluded to, regards the inconsistencies which exist in performance measurement methodology provided by the sponsoring government agencies. This is but one example of what seems to be unnecessary variations in regulations and guidelines for the loan programs. Our people have to continuously sort out these variations and often have to try to explain the differences to borrowers who have loans under several programs. A greater uniformity among the various programs and agencies would definitely help us.

Another area in which help could be supplied to us regards some of the tools authorized to be used in the loan collection process. The NDSL program permits us to request and receive borrowers addresses from the Internal Revenue Service but the procedure is not authorized for the Health Professions Loan program. Again, under the NDSL program but not under the Health Professions program, we can notify credit bureaus of borrower delinquencies and thus provide our borrowers with a powerful incentive to avoid delinquency. The availability of these special tools in all programs would enhance our efforts.

Finally, I want to take this opportunity to tell this committee how much we appreciate the assistance provided to our needy students through the 90% federally funded medical loan program. The continuation and the success of the program are vital to our students and to our mission of medical education. We are fully committed to do what we can, in cooperation with the government agencies and Congress, to ensure the continuation and success of the program.

Senator PERCY. Our next witness is Dr. Caspa L. Harris, Jr., vice president for business and fiscal affairs—treasurer, Howard University.

We are very pleased to have Dr. Harris with us today. As you well know, Howard's delinquency rate in this program is very high. According to the data you submitted last June, of those students who are supposed to be in repayment, 67 percent are 90 days or more delinquent. Certainly this delinquency rate is not encouraging.

On the other hand, what is extremely encouraging is what has transpired since we first called this to your attention. Dr. Harris, you and other members of the Howard University staff did not try to make any excuses for this high rate. Rather, you told us you would immediately make a series of changes in your collection system to crack down on those not paying. In addition, you expressed your eagerness to come forward at this hearing to explain the problem you have had in the past and make a commitment to correct this situation.

I have very high confidence in your willingness and ability to do this. I would like to welcome you today and thank you on behalf of the entire committee for the tremendous cooperation you have extended to us and to our staff.

TESTIMONY OF CASPA L. HARRIS, JR., VICE PRESIDENT FOR BUSINESS AND FISCAL AFFAIRS—TREASURER, HOWARD UNIVERSITY, WASHINGTON, D.C.

Mr. HARRIS. Thank you, Mr. Chairman.

It is my pleasure to appear before this committee to testify on health profession loans as they relate to Howard University. First, I would like to extend to the committee the personal apologies of Dr. James E. Cheek, president of Howard University, who was unable to appear today because of scheduling difficulties. Dr. Cheek has asked me to convey his appreciation and thanks to you for providing the university an opportunity to testify on this important national matter.

Howard University administers health profession loan portfolios for students enrolled in the colleges of medicine, dentistry, nursing, and pharmacy.

The availability of funds through the health professions loan program is considered by Howard a critical source of student aid that has enabled a number of students to pursue careers in the health profession field who simply would not have been able to obtain this type of education if the loan funds were unavailable.

The Howard University administration is not pleased with its current default rate in this program, and we have taken several steps to improve our collection efforts. Before I discuss these steps, I think it is appropriate to state that Howard University has a significant number of its students from economically disadvantaged backgrounds. Approximately 56 percent of our students in the health profession schools received financial assistance during the school year that ended June 30, 1981. While we do not consider this as an excuse for our default rate, we do, nevertheless, feel that you should be aware of all of the facts surrounding the problems in administering this program.

During the past several years, Howard administered the health profession loan program on a semimanual basis. That is, we maintained loan records manually, we manually prepared the bills and computed the interest and manually posted payments. We believe that this manual system contributed significantly to our current default rate.

During the month of April 1981, we completed installation of a fully computerized student loan system for all university administrative loans that will produce timely and accurate bills, interest computation, monthly delinquency rates, and provide current information on each borrower. This system was in effect for only 2 months of the 1981 fiscal year and could not, during this short period of time, have an impact of any importance on our default rate as reported to the Department of Health and Human Services.

The university, as a part of its collection efforts, engaged the services of two collection agencies and two law firms to assist us with our collection efforts. To date, we have not had the success that we had anticipated. We are currently reviewing the record of one of our collection agencies with the possibility of replacement. We have already discharged both law firms and are now in the process of obtaining legal representation from attorneys who specialize in this area of law. Through these and other efforts we believe that we will decrease our default rate by the end of the current fiscal year.

Howard University, in accepting stewardship of these funds, acknowledges its responsibility in administering the total loan program, including the collection requirement. We are not proud of our record in this area and will continue to improve our efforts to decrease our current default rate.

Mr. Chairman, I will be happy to answer any questions concerning this matter from you or other members of the committee.

Senator PERCY. Thank you very much indeed, Dr. Harris. Tell Dr. Cheek we appreciate his willingness to come forward before us, but we fully understand that your appearance here today is very adequate indeed.

When we got into this program, the first thing that we tried to do was to go to schools and find out what their delinquency rates were. We couldn't get any central information on this. What was astounding to me was that the agency making the loans, HHS, did not apparently have a delinquency record by schools.

How long has Howard been in this program, for how many years? Has the Department of Health and Human Services ever come to Howard to tell you you had a serious default problem?

Mr. HARRIS. Howard has been involved in the program since 1964, approximately 17 years. We have no record of a visit by the old Department of HEW or the current HHS concerning our default rate.

In 1979 we did have a visit from the Department, but it was concerning eligibility because we had a question with foreign students. But no one visited as far as the default rate is concerned.

Senator PERCY. Did HHS ever threaten to cut back on Howard's loan funds because of high default rates or offer any assistance or guidance in how your collection program could be improved?

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Mr. HARRIS. Not with health profession loans. With the national direct student loans we did have that problem and we did make significant improvements.

Senator PERCY. I could understand how loan recipients have been having difficulty repaying their loans if they fail to complete medical school and subsequently end up in lower paying jobs. Are cases like this common in your list of delinquent loans?

Mr. HARRIS. Yes, Senator Percy. We do have a number of cases, particularly, according to our records, in dentistry, nursing, and pharmacy. Strangely enough, in the college of medicine, that is not relevant. Our greatest delinquency rate in the college of medicine comes from those students who actually have graduated. But in dentistry, it is just the reverse. Now, we have no evidence in our files that anyone has applied for any type of hardship consideration.

Senator PERCY. Dr. Harris, rather than saying anything critical of this record, which is high for delinquency, I just cannot do anything but praise you for the attitude you have taken, the response that you have made. I am shocked to find we are the first agency, that the Congress is the first one that sat down with you and said, "Look, you have a problem. What are you going to do about it? What can we do about it?"

We have worked cooperatively on it. Your input into the program and the legislation we will enact to put businesslike practices into this has been of tremendous value to us. I wish to commend you highly for not only a fine medical program but a fine business-like attitude in following up on this once you realized you really had a problem.

I have no further questions. Senator Cohen?

Senator COHEN. I have just a couple questions, Mr. Chairman.

Dr. Harris, you indicated that we should keep in mind that many of the students at Howard come from economically disadvantaged backgrounds.

Mr. HARRIS. That is correct.

Senator COHEN. But you also said that there is no evidence that you are aware of that the students who are in default are in default because of economic necessity.

Mr. HARRIS. That is correct. But what I had in mind there was the fact that we have not received anything for our files asking that some deferment be made because they simply cannot meet the bills.

Senator COHEN. So one is not to conclude simply because of the virtue of the fact the students might come from a poor family, lower middle-income family as such, that therefore that should be a justification in any way. In other words, if they graduate, if in fact there has been no evidence that they are out of a job, don't have a job, are temporarily laid off, whatever——

Mr. HARRIS. We don't have that evidence. What I was basically saying was in the three colleges, dentistry, nursing, and pharmacy, we have the highest delinquency rates for those who have not completed the program. But in the college of medicine that is not the case.

Senator COHEN. But I wanted to come back to the point that the "A" student having an economically disadvantaged background does not have any causal connection with their ability to pay back the loan.

Mr. HARRIS. I am not inferring it does. What I would like to say is I think we have to take a great deal of the blame here. We previously

had a manual system. We emphasized and placed on a computerized system the direct student loan program. They have been on that since about a year ago. At that time our delinquency rate in that program was about 64 percent. It has subsequently been decreased to about 27 percent. We just put, in April, the health profession loans on this program. We have had about an 18-percent drop since July 1, in this area. But in addition to that, we are going to follow up vigorously with our efforts in the area of lawsuits and collection agencies to try to get this down to what we would consider a national norm.

Senator COHEN. I recall you testified that you are going to fire one collection agency and hire another. I might recommend to you that because of some actions taken by Congress it makes it more difficult even for debt collection agencies to operate in the fashion they have become accustomed to in the past. I am not sure that is going to be any more successful for you, frankly. I was wondering, when your predecessor in that chair testified that they at Loyola found that it is more successful to have an in-house debt collector, as such, that perhaps you might take that into consideration. Because frankly, Mr. Chairman, turning this over to a collection agency with the kinds of restrictions that are placed upon the collection agencies, the kinds of lawsuits that one must go through, makes that a very time-consuming process, particularly in a judicial branch which is heavily overburdened, as it currently is. So I am not sure this is going to result in that much more of a collection. Maybe the threat of a lawsuit, any kind of social stigma of being sued on a college loan, might be a deterrent. But in practical terms, the collection has to begin either before it is turned over to an agency or an attorney to begin a lawsuit.

Mr. HARRIS. Yes, we realize that. I have a commitment from the administration that they will provide additional people in-house to work on this.

Senator COHEN. Just one final point. You now conduct exit interviews.

Mr. HARRIS. Yes. In fact, it was done in the past primarily in conjunction with our loan collection office and the dean. What we are going to do in the future is we are going to do it all in the loan collection area, to make certain that no one is missed.

Senator COHEN. Have you found that contradictions in regulations, the complexity of the regulations, has contributed to your delinquency rates, nonpayment?

Mr. HARRIS. I cannot say it has contributed. It has been somewhat confusing for the staff. But I cannot honestly state it has contributed in this manner.

Senator COHEN. Thank you. That is all I have.

Senator PERCY. Thank you, Senator Cohen.

Thank you, Dr. Harris, very much indeed. We appreciate your being with us.

Our next witness is Mr. Robert Scott, director of financial systems, Harvard University.

Mr. Scott. we welcome you this morning. When you begin your testimony, if you would be good enough to introduce your colleagues.

You represent this morning one of the great institutions of higher education in the world. As you know, last June 82 medical schools participating in the health professions program supplied HHS with

information indicating the number of delinquent borrowers in the program. This is the first time HHS has asked for detailed delinquency information in the 17-year history of the program.

Data Harvard submitted on that occasion showed that you had a high delinquency rate. According to your own data, one in three students in repayment were delinquent. Since that report was filed, and at Harvard's invitation, our subcommittee staff and the GAO have worked with you on a case-by-case exhaustive analysis of your delinquency rate.

I realize that Harvard disagrees with the Office of Management and Budget, the General Accounting Office and the Comptroller General and the subcommittee staff as to how delinquency rates should be calculated. I understand your frustration in this regard then. This illustrates one of the basic flaws in the program. HHS has failed in its responsibility to establish standard formulas for determining delinquency and default rates.

When we get down to it, from our standpoint, that is not our problem. The bottom line is this: Our staff has been impressed with some of Harvard's loan collection efforts. The fact does remain, however, that too many of your loans are presently overdue.

What I hope you can address in your testimony is how we in the Congress, HHS and how the medical schools themselves can work together to solve this problem to protect the best interests of the taxpayers who have financed these loans—too many of which are delinquent.

Because of Harvard's long experience in the program, I am sure you can help us to understand the problems which have contributed to the high delinquency rates that we see in the program nationwide.

Your full testimony, of course, will be incorporated in the record. It was received late. I haven't had a chance to go over it. If you would like to summarize it at this point, we would be pleased to have you do that. If you would introduce your colleagues.

TESTIMONY OF ROBERT SCOTT, DIRECTOR, OFFICE OF FINANCIAL SYSTEMS, HARVARD UNIVERSITY, ACCOMPANIED BY DANIEL FEDERMAN, DEAN FOR STUDENTS AND ALUMNI, HARVARD MEDICAL SCHOOL; EDWARD POWERS, ASSOCIATE GENERAL COUNSEL; AND MARK SCHEER, COLLECTION MANAGER, STUDENT LOAN OFFICE

Mr. SCOTT. Thank you, Mr. Chairman. I will be glad to summarize my statement in approximately 8 minutes, if that is appropriate.

Senator PERCY. Fine. Thank you.

Mr. SCOTT. On my left is Dr. Daniel Federman who is the dean for students and alumni in the Harvard Medical School. On my right is Mr. Edward Powers, associate general counsel of the University, who is responsible for many of the cases when we end up pursuing students in a legal action. On the right of Mr. Powers is Mr. Mark Scheer, who is manager of the collection staff in our student loan office.

I would like to begin, Mr. Chairman, by reiterating a number of points made by Dr. Daniel C. Tosteson, dean of the Harvard Medical School, in his letter to you of December 1, 1981. Harvard views the HPSL program as an extremely important and valuable program.

Since the terms of the HPSL program are favorable and since participation is limited to students of exceptional financial need, this program is particularly helpful in providing access to medical education for students from low-income families and from underrepresented minority groups.

During 1980–81, for example, 40 percent of the Health Profession Student Loan recipients at the Harvard Medical School were minority group members while only 20 percent—in itself a high number—of the total enrollment in the school came from minority groups. An equally important perhaps even more important fact, is that more than half, 54 percent, of the recipients of HPSL loans at Harvard came from families in which the parental income is less than $12,000.

This program, together with the university's scholarship and other student aid programs, is a major factor contributing to the great success of the affirmative action program of our medical school. Achievement of affirmative action, to which we are enthusiastically and wholeheartedly committed, is, as you know, a goal of the Congress, the executive branch, and all institutions of higher education. With the help of this program, Harvard's Medical School enrolls more underrepresented minority individuals and more economically disadvantaged students than almost any other private medical school in the Nation. Seventy percent of the students in our medical school receive financial aid of some sort.

The average debt of graduating medical students who have received financial aid is now in excess of $30,000. The spiraling debt levels necessarily incurred by students being graduated from private medical schools is a cause for increasing concern at Harvard as well as at other institutions.

Naturally it is students from the low-income groups about whom we are most troubled. These students have the highest need and, therefore, are likely to incur the greatest debts and yet they have the least experience in the management of such debt. These students may also be subject to the greatest additional demands on their resources, such as the need to assist other members of their families. It is important that these students have a vailable a mix of loan opportunities. They very much need to have access to low interest, long term, favorable financing such as that provided by the HPSL program.

Harvard has made a major commitment to its student loan program. Our student loan program has increased by a factor of four during the past decade. We now have over $95 million in loans outstanding to students currently in school or graduated. This major commitment has required changes over the past few years to the process by which student loans are administered. Harvard has recruited an administrative staff in this area which we believe to be truly first class. We have designed, built, and installed very advanced information processing and computer systems to support our management of and accounting for student loans.

While I believe that our student loan system is of the highest quality, it is certainly not perfect. It is fair to say that we were not fully prepared in advance to handle the rapid increase in the number of loans we have needed to administer. The administrative changes we made during 1978 and 1979 corrected this situation and we are now able to keep ahead of the workload. We are continuing to

improve our management and we are working to resolve those few problems which arose in earlier years and which have not yet been fully corrected.

Accounting for, and management of, student loans is a complex and difficult process. Each loan program has its own particular conditions. Loans which are supported either by capital contributions, guarantees, or interest subsidies from the Federal Government are accompanied by regulations which are extensive, complex, and detailed. It is our clear responsibility to comply fully with these regulations. However, their number, their detailed nature, the rate at which they change, and the difference between the regulations applicable to different Federal loan programs make full compliance a challenging task. The character of these regulations, their requirement that we take specific steps with each individual student—such as the requirement for contact with each borrower several times per year—and their requirement that we be able to demonstrate after the fact that each and every one of these steps has been taken are among the reasons why we have needed to design a sophisticated computer and record retention system.

We believe that the collection system we have in place is as advanced as any used by any institution of higher education. Our discussions with members of the banking, collections, and public accounting industries suggest to us that this system compares well with the best used in private enterprise.

Again I stress there is certainly room for improvement.

Senator COHEN. Is it fair to say Harvard now supports President Reagan's effort to streamline the regulatory process?

Mr. SCOTT. We have certainly supported it long before President Reagan was elected, sir.

Senator COHEN. He will be happy to hear that. [Laughter.]

Mr. SCOTT. It is Harvard's policy and it is our expectation that those of our students who borrow from any of our student loan programs should repay their debts fully and in compliance with all the terms of those debts. Those who do not do a disservice to themselves, to their professions, to the programs that have supported them, and to those students who will benefit from the same programs in the future. We actively pursue all problem cases. We expect payment, and we expect payment in full.

When we believe it would be useful, we use collection bureaus. We have been doing this for some time. We also refer cases to external attorneys and to our general counsel's office for appropriate action as may be necessary.

I would stress, digressing somewhat from the summary of my comments, that I agree with Loyola. We have frequently found that internal legal action we take ourselves is superior to referring cases to collection bureaus or to external attorneys.

In managing all of our student loan programs, it is our policy to follow all regulations scrupulously and in detail and to classify loans on the most conservative basis possible. While this practice is not always required and will sometimes work to our disadvantage, we believe it to be the correct course. In our internal systems and in our external reporting, we consider a loan as subject to special consideration if there is any aspect of its administration which is nonroutine.

The data which we gave to the Government for the year ending June 30, 1981 is an example of this conservative reporting. In that data, all cases where the problems were technical in nature as well as those cases where the problems were real and significant delinquency were combined together. The university reported in this way because it is the conservative approach, because the regulations do not specify clearly how the various different cases should be handled, and because for this program the issue of a payment delinquency rate has not previously arisen and does not appear to be defined.

We have provided current data for this program as of November 27, 1981. These are the data used in these charts, I believe.[1] We gave these data to the committee in an attempt to make these points clearly. These recent data show that loans have been granted to 1,078 students. Sixty-six loans have been repaid fully and 299 have been granted to persons either still in school or in deferment. Five hundred and ten are current in every way and 203 students are nonroutine. This number of 203 in the nonroutine category is a significant reduction from the 243 counted on exactly the same basis as contained in the data we submitted last June. This reduction represents, in our opinion, the continued improvement in our student loan office, improved collections when it has been necessary, and also improved paperwork.

These 203 students can be divided into three categories. Ninety-one are persons whom the university considers to be technically delinquent. These are the cases in which the student has paid Harvard everything that he or she has been told to pay. One hundred and twelve students are not in this category but are simply those who have not paid all that they owe. Eighty-three of these students are being followed by our student loan office, but 19 have been referred to collections agencies or attorneys because we have been unsuccessful to date in collecting the amounts owed.

Of all of these borrowers, a substantial number are paying more than the normal payment and thus are covering any delinquency which may exist. Only 11 cases are particularly troubling to us. I do not wish to say that I believe that 11 is acceptable. That number, however, is a relatively small fraction of the total. Those are cases in which we have not received a payment for 90 days or more. We consider such behavior totally unacceptable.

I believe that our collection record is a good one and that it is improving further. The populations involved are extremely mobile and the conditions of their employment are very complicated. More frequently than might be expected, individuals encounter personal and financial circumstances which cause them to have difficulty in repaying loans.

One deficiency, Mr. Chairman, in the HPSL program regulations is that the program incorporates no collection objective. The national direct student loan program, which at Harvard involves more than four times the volume of dollars as does the HPSL program and which is far more significant nationally, does have a definition of delinquency rate. That definition focuses on amounts due; but, most important, it reflects normal collection practice by allowing institutions to consider as not delinquent those who are making "reasonable

[1] See charts starting on p. 157.

progress"—those are the words in the definition—toward the payment of their obligations even though they may have accumulated a delinquency over time. This delinquency measurement clearly focuses on the real problems; that is, those who owe significant amounts and who are not making a reasonable payment.

Our review of the health professions student loan program record with a substantial number of other institutions of higher education indicates two interesting points. First, many institutions do not manage this collection activity themselves but utilize external service bureaus. While those institutions are responsible for their own reporting, they must depend on the service bureau they engage.

Second, we have discovered that a number of institutions who do manage the collection program themselves, as well as a number of service bureaus, incorrectly use the NDSL definitions for the HPSL program. While this is an error, it is perhaps understandable since the NDSL program involves so much more money and covers so many more people. In this way, they count as current those who are making reasonable progress on paying their loans.

As I have pointed out, Harvard interprets, and has always interpreted, the HPSL regulations conservatively. As you can see, comparison between institutions is made difficult as a result of both differences in interpretation and inaccuracies. That is the major difference between the statistics on your chart.

I would like to note that our discussions with a number of institutions that are prominently displayed as having good records are those which our discussions indicate have chosen to use a different basis for computing the date. All of this confusion suggests that it is important to develop a clear definition for default rate and to establish collection objectives.

I would like also to respond to your staff's request to make suggestions to improve the program.

Different Federal programs operate under different conditions. Some of those differences clearly are necessary as a result of the objectives of the programs. Many, however, are not. For example, different programs use different rates of payment, different collection criteria, different requirements for contact with borrowers, different types of forms for collecting information, and different record retention requirements. Similar regulations for all loan programs would greatly simplify administration if this objective is consistent with the fact that different congressional committees and Federal agencies are responsible for the different programs.

Second, regulations associated with each Federal program are written as if a student will be borrowing from that program only. In fact, many students borrow from more than one program. It is not unusual for us to deal with students who have NDSL and FISL loans as undergraduates at one institution and may also have institutional loans, HSPL loans, and FISL loans while graduate students at Harvard.

As I said, the methods in which each program must be administered are written as if that were the only program. To the extent the differences can be eliminated, this problem will be reduced. However, since all problems will not be resolvable, it would be very helpful if programs would contain some flexibility to allow reasonable administration.

For example, note instruments should be written so as to incorporate current regulations rather than those, in effect, when the note is signed. Also, if students have loans from many programs, it would be helpful if those loans could all be administered according to the conditions of the program to which the student has the greatest debt.

Third, regulations associated with these programs have changed frequently and often without warning. The manual concerning the HPSL program, for example, contains two pages simply to summarize the dates of the changes that have been made in this program over the past 15 years. If program changes could be minimized and made with advance notice, administration would be greatly simplified.

For example, the recent requirement for an audit of the HPSL program is embodied in regulations dated October 1980 and delivered in the spring of 1981. Yet that requirement relates to the period that ended last June 30.

Fourth, it would be extremely helpful if those changes which are needed could be made in what is known as a grandfathered states; that is, to affect all previous borrowers immediately. One of the greatest difficulties we encounter is that individuals in one program will be subject to different regulations depending on the time at which they borrowed or the time at which they went into any of a large number of subsequent statuses, such as when they went into repayment. Greater confusion results when individuals have more than one loan from a single program and different conditions apply to different loans. Those cases I mentioned earlier which involve students with many different loans would obviously be greatly simplified by such a change.

We have cases at Harvard in which people are being subjected to as many as 18 different sets of repayment conditions. Clearly, this makes repayment of loans quite complicated.

Fifth, determinations of measurements of performance should be made clearly and in advance. This is a very important matter. Delinquency rates and other performance measurements are measures of the success of program administration and collection procedures. However, they also become objectives. If the delinquency rate measurement focuses on amount owed rather than on the number of borrowers, then lenders will focus on collecting the largest amount first. If, on the other hand, the rate focuses on the number of borrowers, then lenders will naturally focus on collecting a large number of small accounts in order to improve their records.

Clear statements of objective should be made and clear definitions should be established. These definitions, once established, should be left in place for significant timeframes. Continuous change in definitions will cause collection programs to be redirected frequently to achieve the new objectives. That negatively affects a large number of the aspects of the loan program.

I want to close by saying we fully support the objective of reducing delinquency rates. We have had a considerable amount of discussions with your staff over the matter of delinquency rates. The issue which has most concerned us is to make sure that the component of the delinquency rate which is our fault, not the student's fault, such as those situations which arise when we have failed to bill the student the right amount and when the student has paid the amount billed, are associated with us as an institution and not blamed on the student. There are cases where students have not been billed, there are cases

where we have not billed the student the right amount, and there are cases where technical problems arise, such as when we are waiting for forms. Such cases of error do not represent delinquency by students.

We have improved our record and we believe that we should improve it further. We very much appreciate the opportunity to discuss this matter further with you today.

Senator PERCY. I think you can understand, Mr. Scott, how the General Accounting Office, the Office of Management and Budget, the Comptroller General, and we could not possibly factor in an allowance and excuse or not consider delinquent students simply because their institution had made a faulty record or poor followup or something like that.

I would like to direct your attention then to the charts because we have had a disagreement as to how to determine Harvard's delinquency data. We have prepared two charts to show how the committee, GAO, and OMB interpret the data as well as how you view it.[1]

The first chart which is on the right breaks down your accounts into nine categories. Each category explains the status of the account. For example, in 84 cases the borrower is paying less than the original loan agreement but is making some payment. In 28 cases, Harvard underbilled the students for some period of time, thus generating a delinquency on the account and so on.

On the right side of the chart we have indicated which categories Harvard considers delinquent and which GAO, OMB, and HHS and our committees staff considers overdue.

On the second chart, which is the chart to the left, we give the comparative delinquency rates based on Harvard's interpretation versus the Government's interpretation. I have several questions with this data in mind then.

Mr. SCOTT. I have here credit reports obtained by GAO on 70 of the 127 Harvard doctors who have either stopped paying entirely on their loans or are not paying back their loans according to the terms of the original loan agreement. None of these students has had his debt rescheduled or stretched out because of hardship. They are all between 90 days and 6 years delinquent, according to the original terms of the loan.

These credit reports show that 83 percent of these borrowers who we classify as overdue have an absolutely unblemished credit rating in the private sector in the past year. In the past year they have not missed a single payment on their private sector loans and accounts.

Of course, granted, I will not disclose their identity, but I would like to give you a few examples of their financial situation. One doctor, for instance, has a $19,800 car loan, nearly $2,000 in charges at department stores, $13,000 in other credit and bank accounts. He has never missed making a full payment each month on any of these accounts. The same Harvard doctor is nearly 2 years delinquent on his medical school loan. He cannot bring himself to pay the $1,552 that he is overdue on his Government loan.

Another has charge accounts at 11 different department stores. He has loans ranging from $1,000 to $4,000 at four banks. Again, he has never missed any of his monthly payments on these accounts. Yet this doctor is nearly 2 years delinquent on his medical school loan. He is $2,000 in arrears.

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[1] See charts starting on p. 157.

Finally, another Harvard graduate just received a $115,000 home loan from a savings and loan and has two credit cards which he pays promptly on. He is 3 years delinquent on his medical school loan.

There are another 55 reports like the 3 that I have mentioned. We have them all right here.

When 83 percent of these doctors are paying all of their debts in full and on time except for the one to Uncle Sam, something simply has to be wrong. When 83 percent of these doctors could write a check tomorrow to cover their overdue balance on their Government loan, but are not, something is wrong.

Why do these doctors, in spite of Harvard's efforts to collect from them, put the Government at the bottom of their list of creditors to pay back? Shouldn't the taxpayer be paid back first rather than last? After all, they made all of these doctors' good living possible with the loans in the first instance.

Mr. SCOTT. Mr. Chairman, I certainly agree that anyone in a status such as that you describe should immediately cure any delinquency.

I also agree that a physician's debt to this program is at least as important as any other debt the physician or other recipient may have incurred. We are moving as accurately and quickly as we can to reduce any delinquency rate that exists in the HPSL program. I abhor, as do you, the failure of an individual who is able to pay a debt to pay that debt. As I said earlier, it is certainly our intention and our policy that all recipients of aid pay their debts. We are moving as quickly as we can to correct the situation.

Senator PERCY. I do understand that Harvard disagrees with us over the definition of delinquency. For example, you do not feel that the 84 Harvard borrowers who are paying less than the original loan agreement but who have made a payment in the last 90 days should be classified as delinquent. Again, as I said, any banker I know of would declare them delinquent.

Let me give you an example now of one of these students whom you claim is not delinquent. I have in front of me Harvard's computer printout which has the loan status of one of these students. It indicates that this borrower is 5 years overdue. The amount in arrears is only $1,477. Going by your method of defining delinquency, this borrower is not delinquent because he just made a whopping $25 payment on November 16, 1981 on his $1,477 5-year-old past-due account.

Now, if they are smart enough to get through Harvard, they are smart enough to figure out your system. Anyone can get through a system and break down some of these systems we use here for loans. Certainly they can figure that out, that if a payment is made, that they then are taken off the delinquent list.

Another debtor is almost 6 years overdue. He is $2,224 in arrears. Yet here again he would not be considered delinquent under your definition because he has just made a $56 payment on November 23d. This borrower's credit report indicates he has a perfect credit rating in the private sector. He has one loan which he has never missed a payment on, two credit accounts fully current, and paid off a small home improvement loan.

There are more cases like the ones I have just read. I wonder, Mr. Scott, if you, and Mr. Powers, who has something to say, I am sure, on this, would not agree that it is difficult to look at these cases and

conclude that they are not delinquent in paying back their medical school loans.

Mr. SCOTT. Mr. Chairman, I certainly agree with you, that there is an important aspect of that that is extremely poor. I think there are two important factors to consider.

As the gentleman from the General Accounting Office pointed out, it is normal collection practice when a person falls behind in any debt, to attempt first to obtain an immediate restart of payments and to get the debtor onto a new repayment schedule which cures the delinquency as rapidly as possible.

That is exactly the process we follow. We do not consider a person to be out of a collection position until their payments are correct. We have different categories into which we place different types of situations. If a person has been delinquent for a number of years and is finally contacted by a loan office and begins to repay, we will follow him very carefully to make sure the amount paid is significantly greater than the amount originally scheduled in order to get the account back into current status as quickly as possible.

But the fact most in disagreement between us and your staff is not whether or not the facts you are describing are accurate with respect to the individual cases you cite but whether or not Harvard keeps its records in a materially different way from the method used by other institutions. Your staff has not been able to study other institutions in the detail that our institution has been studied.

From our own research with other schools of medicine and with the collection staffs at other institutions during the last week and a half, we have discovered that our accounting procedures are significantly more conservative than those used by most. Our forthrightness, the completeness with which we prepare all of the various required reports, and the way in which we answer the questions that have been put to us makes a very significant difference to the way in which the record looks.

I want to stress that I deplore the failure to pay on the part individual who is able to pay. We do not condone such behavior. We do not allow it when we know about it, and we pursue problems as vigorously as we can.

I do believe that you will find our record—if compared on an accurate basis with that of other institutions—to be a good record.

Senator PERCY. I would like to direct your attention to the charts we have in the back of the room. In these charts we have one showing the 15 medical schools with the lowest delinquency rates. These schools reported very low delinquency rates; that is, under 5 percent.[1]

We asked GAO to go to one of these schools, Georgetown, to do a case-by-case review of their figures to make sure they were computing delinquency rates exactly as they have for Harvard. The GAO audit, using the same criteria, found that Harvard has 24 percent delinquency while Georgetown is 4.5 percent.

In your statement, you indicate that Harvard's collections compare, and I use your words, very well with other schools in the health professions program. The university that is 5 blocks from me, that I passed this morning, doesn't compare. And the GAO certified to us that they used the same procedure in determining delinquencies at Georgetown as they did at Harvard.

[1] See charts starting on p. 157.

How do you account for the fact that Georgetown has one-fifth the delinquency rate that Harvard has?

Mr. SCOTT. Mr. Chairman, I certainly would be the last to say that our record is the best. I am sure there are institutions that have better records than ours.

Senator PERCY. We are making progress if you admit that.

Mr. SCOTT. I did not say that our record was the best. I have not discussed this situation myself with Georgetown. Some of my colleagues have. I have not seen the results of the GAO comparison that you mentioned. It is my understanding from my colleagues who have discussed the situation with Georgetown that their recordkeeping system, which I have not reviewed myself, is not the same as ours and that they use definitions which are less conservative than ours. I do not see how I could comment in detail on a report I have not seen. I do not know why their record is different from ours. I do not know whether the difference is statistical or whether it represents something substantive from which we can learn.

Senator PERCY. How many universities have you visited to study their system? Have you visited any of those that are on the above average delinquency rate list to see how universities that have exactly the same problem that you have, the same type of students, same program, how their collection rate is so much superior to Harvard's?

Mr. SCOTT. Mr. Chairman, I visited a number of universities. I have not visited any 1 of the 15 which are on your list and are cited as the ones with the lowest delinquency rates.

Senator PERCY. Are you going to universities that have comparable rates to you then? Misery likes company maybe?

Mr. SCOTT. No, sir; that is not the case. We visit and compare ourselves with institutions that have similar programs to ours. A large majority of the institutions on your list are, as you know, State institutions where the level of debt incurred by graduate students in medicine is not nearly as high as it is in private institutions. I believe that comparisons between State and private institutions where the debt levels of graduating students are significantly different are not particularly significant.

Our graduating students have an average debt, as I said earlier, of over $30,000. I would doubt that many of the graduating students from these State universities, because of the generosity of their State in educating them, would have needed to incur anywhere near that debt.

Senator PERCY. Senator Cohen, I will only be able to ask a couple more questions. I wonder if you could chair the hearing until I could get back. Is that possible?

Senator COHEN. I am due to chair a hearing at 11 a.m. myself.

Senator PERCY. Then if Senator Rudman could be sent for, please. Otherwise we will have to recess. Senator Rudman has said he would be here at 11 to chair the hearing, knowing my schedule.

Mr. Scott, on page 10 of your statement you say, and I would ask you to refer to that statement, and I will quote your words, "Only 11 delinquent cases are particularly serious problems in that no payment has been made for 90 days. I do not believe that this represents a significant fraction of the total."

As you know, we have reviewed your delinquent loan accounts one by one using data provided on November 23, 1981. I have in my hand

33 loan accounts in which the borrower has made no payment in the last 4 months. In 27 of the 33 cases, the borrower has made no payments in the last 7 months. In 20 of the cases, no payment has been made for at least 1 year.

While 33 nonpaying students does not sound like very many, there are only 66 students in the history of the health professions program at Harvard who have finished paying their loans in full. If we add the other 137 that are delinquent, for whatever reason, it just seems that it is a rather significant number.

How do you account for the discrepancy between the 11 and 33 cases?

Mr. SCOTT. Mr. Chairman, the 11 refers to those being followed by our internal student collection process. As I said earlier, two sentences above, there are 19 which we have referred to collection agencies and which the collection agency is following for us.

The sum of 19 and 11 is 30. I believe you said the number you have in your report is 33. I would assume that might be some difference between the day on which the reports were prepared and when the last payment came in. But without looking at the details by individuals, I can't describe the difference.

Senator PERCY. In your statement, you indicate that the 26 percent delinquency rate is overstated because 91 of the borrowers included in that category do not belong there because Harvard made a variety of administrative errors in collecting accounts. For example, you claim that 44 of the accounts are not delinquent because the university incorrectly added a 1-year grace period to a deferment for these borrowers. In 12 cases you maintain that the accounts are not delinquent or overdue because Harvard underbilled accounts which resulted in lower monthly payments than scheduled. Finally, in 11 other cases you say that the accounts are not past due because the borrower and the university at some time agreed upon a revised payment schedule.

The subcommittee staff has discussed your classification of these accounts with senior officials at HHS, OMB, and the GAO. They all maintain that regardless of why the money was not returned to the program on time, it is still overdue. When money does not come back on time, the taxpayers either have to put up more money to cover that amount and pay the interest on it or a future student must go without loan funds.

If you view this situation as a bank would, whether a borrower failed to make full payment because he just didn't want to or the bank failed to notify the borrower promptly, the money still does not come back when it is supposed to and the bank trustees wouldn't stand for it in either case. Regardless of how the school operated, would you agree the school should reimburse the loan fund and the taxpayers to make up for its billing differences and mistakes?

Mr. SCOTT. I would agree that all schools should behave according to the requirement of the regulations. I certainly believe that should Health and Human Services determine that we have behaved in a way that is not fully in compliance with the rules and have not exercised due diligence in our collections, that we should make the adjustments that are necessary, as we do in cases when that kind of determination is made.

I stressed earlier that, when repayments due to this program have not been made, then fewer funds are available than was intended. It is very important for us to distinguish those cases where it is the physician who is not repaying and where it is an error that the institution has made.

I would also like to recall again the statement made by the gentleman from the General Accounting Office concerning normal collection procedures, in which he pointed out, I believe quite clearly, the fact that normal collection procedures followed by a bank or similar institution would not be to try immediately to collect everything from a delinquent borrower if that was impossible, but to try to get the person onto a repayment schedule that was negotiated and acceptable.

Senator PERCY. I would like to say that when I was in business and the distinguished Donald David, who was head of the Harvard Law School, decided to retire, I was approached by the president of Harvard and the overseers to replace him and leave business. I went out and talked to them and just decided I shouldn't do it at that time.

I can assure you, if I had been at the Harvard Business School, having had a father banker and been on a couple bank boards and spent most of my life in business, I would certainly concur in what the Office of Management and Budget, what the GAO, what our staff has concluded and defined, which is universally accepted by other schools as a delinquent rate, is the delinquent rate.

I am sorry we have this difference of opinion. But Harvard is an educational institution that deals with facts. I will let the facts prove themselves as to whether or not the delinquency rate that should be accepted by the public and will be accepted I feel positive by the Secretary of the Treasury, who is responsible, is the rate that we have determined as a fair rate. I think it is a standard that Harvard as a great institution should see eye-to-eye with us on. I will stick with it until we agree this is the delinquency rate we should consider.

Senator Cohen?

Senator COHEN. I want to just comment, I want to assure you this is not the Senate's attempt to respond to the Lampoon as much as some might think.

On page 5 you indicated that the regulations, their number, their detailed nature, the rate on which they change, the differences in the application of the regulations, the different loan programs, make full compliance a challenging task. Then you indicate that you have been forced to design a rather sophisticated computer to handle these things.

Do you, in fact, now have that sophisticated computer which can accommodate these rapid changes?

Mr. SCOTT. We do, Senator. And that system was seen by several of the members of Senator Percy's staff and of the committee's staff when they visited us with the General Accounting Office. I would like to note that they remarked when they were at Harvard that our collection system was one of the best they had seen.

Senator COHEN. Would it be fair to conclude then as a result of Harvard being forced into funding and purchasing a rather sophisticated computer system that you now have the capability to master that flow of regulations emanating from Washington so you will not have this sort of difficulty that you have had in the past?

Mr. SCOTT. Senator, I want to make it perfectly clear that we accept our responsibility to master whatever regulations are associated with the program. I am just trying to describe the reasons for the difficulties we have had.

The automated system we have is a good one and will make it possible for us to master those regulations. It will also make it possible for us to resolve over a period of time the difficulties which have arisen over a longer period of time.

More important, however, I want to stress the important contribution that you can make to the design of these programs and of the regulations that affect them. Programs should be designed so that the regulations are as similar as possible. It is hard to describe the difficulty associated with making sure that repayment amounts are correctly calculated when they involve such complicated instructions and not only one institution. In a number of cases, when a person will owe money to more than one school and yet a minimum payment must be obtained and divided.

One of the most significant of disagreements between us and the staff of the committee is the data. One of the reasons that you have received this program at Harvard is that we have good data to describe the program at our institution. We know the status of every student. We dot every "i" and we cross every "t." We follow up on every detail and attempt to correct everything that is imperfect.

I believe that, if similar data were collected for every institution—or even for a sample of institutions—that you would find that our record was not a bad one. I do not want to say, as Senator Percy seemed to imply I was saying, that I believe our record to be perfect. It is not perfect and it could be improved. But it is not bad.

Senator COHEN. One of the great ironies coming out of this is that your testimony regarding the lengths to which Harvard has gone to meet the shifting misasma of regulations conflicts with the testimony we received from GAO in which the Department itself has no regulations which they follow or even any oversight which they seek to enforce. So you are caught in the position of having gone forward to make these changes when in fact nobody is watching.

Mr. SCOTT. Yes.

Senator COHEN. Nobody in Washington is watching or caring or seeking to enforce. That is, I think, one of the ironies that must stand out during the course of these hearings.

Second, I think you raise a valid point. Again, much as you might feel put upon coming forward with these particular statistics, I think you make a valid point. I would ask you as one who is in the field of education, does it make any sense, for example, to have this particular program, the health profession student loan program, under HHS and the national student defense program under the Department of Education?

Now, one of the reasons why the Department of Education was originally created—I might add, with the sole dissent by this member when it was created and approved 21 to 1, I believe by this committee—was to streamline the bureaucracy. The Department of HEW had become so big, so overblown, so encrusted with bureaucratic regulations that they had to create a separate Department of Education so we could have more efficiency, more effectiveness, and all of the code words that we use in trying to eliminate waste in our Government.

Oddly enough, we still have a Department of Education which has one loan program and a Department of HHS which has another, both of which have different standards, different guidelines, and different regulations. So I would assume that you would join in one of two conclusions. Either one program should be consolidated under one department or perhaps we don't need the Department of Education. I won't call upon you to make that judgment right now.

Mr. SCOTT. I would say, Senator, that the important issue from the point of view of loan administration, regardless of whether they are under the purview of one department or another, is the way in which the conditions associated with those loans are to be managed.

All student loan programs with which I am familiar have conditions that relate to the manner in which a loan repayment is to be excused or delayed which are different.

Senator COHEN. Can there be a rationale for the difference? In other words, do you want to be put in a position where you must treat all students equally under all programs? I don't think you would advocate that, would you?

Mr. SCOTT. No.

Senator COHEN. So it is not quite as simple as saying let's have uniformity because you might find that different programs need to be tailored to the reasonable projections of what that student might earn and his or her ability to repay that loan. On the one hand you might be beleaguered with conflicting regulations. On the other hand, uniformity might work to the detriment of other students who can't pay.

Mr. SCOTT. Absolutely. Uniformity could be unwise because of the ability of students themselves. Many students, upon graduation, do not engage in their profession for years after graduation. Those going to business schools, however, are likely to engage in their profession on the day they graduate. So repayment issues will be different and those differences should be considered.

Senator COHEN. So there is some rationale for at least some differences in the treatment.

Mr. SCOTT. I believe that there is rationale for the differences in the basis of treatment. My concern is really over the way in which those differences are handled. There are, for example, a large number of different forms to be completed and there are many regulations which relate to the definitions of deferment.

Senator COHEN. The problem is they are not handled at all, isn't that it? If the GAO is any indication, there really hasn't been a whole lot of attention devoted to this. It is sort of let's get the money out there, get the people into a better educated society, and hopefully their own moral consciousness will insure that money flows back into the university and keep the fund revolving.

Mr. SCOTT That is certainly the most important factor. It is certainly true that my institution—I cannot, of course, speak for all institutions—but it is certainly true that during the 25 or 30 years in which we have been in the student loan business either on our own initiative or more recently with Federal funds or Federal guarantees, we did not invest the attention we should have to administration of this entire area. That is a problem which we and others have been addressing and which we are trying to improve.

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Senator COHEN. I think on page 3 of your statement you indicated that 54 percent of Harvard students who receive HPSL's come from families in which the family income is under $12,000 a year. A much similar statement was made by the gentleman from Howard. Whether or not they come from a poor or lower middle income family is not really the relevant factor, is it? Isn't it rather their intelligence, their education, and their ability to earn and, in fact, their record of earnings. It is not really relevant for someone to come here and say don't forget that a large percent of these young students come from deprived families and, therefore, you must take that into account in assessing the delinquent loan record. In fact, unless you can demonstrate that those same 54 percent are having some earning difficulties following their graduation, then it is sort of a reverse bias. You are kind of frustrating the affirmative action programs that Congress over the years has supported. You haven't said that, but it is implied.

Mr. SCOTT. I don't mean to imply that, either.

Senator COHEN. I hope not.

Mr. SCOTT. I believe that everyone who accepts a loan has—and this is presented formally and in writing to students as they come to our university in a booklet they receive—a clear obligation to repay all debt. That obligation is discussed and disclosed to them in detail.

But I believe it is important to remember, not in any way as an excuse for failing to pay, that a person who comes from a family with a low income and who is successful is going to have a lot of demands placed on him or her by other members of the family.

Senator COHEN. OK. I can accept that. But what I am suggesting to you is unless there is some record in your sophisticated system that says they are having financial difficulties and you don't have the situation Senator Percy was talking about of having a $19,000 car on which the payments are being made and two credit cards and so forth, the fact that they are from a low-income family is not really relevant. Unless you can show that the same 54 percent is really under some sort of hardship because he or she is the successor of the family, I am not sure that really applies.

Frankly, I can go back to my own college days in which I had a loan, My family certainly was under $12,000, under $5,000. That really had no relationship to my ability to repay it when I got out of school.

Mr. SCOTT. I certainly agree. My institution's policy is that everyone should repay their loan.

Senator COHEN. That is all. Thank you, Mr. Chairman.

Senator PERCY. Thank you very kindly, Senator Cohen.

Any further comment that any one of you would like to make? I want to give you a full opportunity to state your case.

I thank you very much indeed for your presence, then. We will be working with you and we will appreciate all the help you can give us in this program because I think in principle we agree.

Mr. SCOTT. I think that is certainly the case.

Senator PERCY. If the program is to be saved it has to be improved. That is our job. We do not intend to point a finger. There appears to be considerable improvement in your program. I think you are moving in the right direction.

Mr. SCOTT. Thank you very much.

[Mr. Scott's prepared statement follows:]

Testimony Relating to the Health Professions Student Loan Program

Presented to the Committee on Governmental Affairs

of the United States Senate

on December 8, 1981

Mr. Chairman:

My name is Robert Scott and I am Director of the Office of Financial Systems at Harvard University. I am accompanied by Dr. Daniel Federman, Dean for Students and Alumni in the Harvard Medical School, Mr. Edward Powers, Associate General Counsel to the University, and by Mr. Mark Scheer, Collection Manager in our Student Loan Office. These colleagues are joining me today because they are familiar with aspects of our student loan program which may be of interest to you.

I am appearing at your request to discuss the status of the Health Professions Student Loan (HPSL) Program at Harvard. The University has selected me to appear because the management of all student loan programs administered by Harvard is one part of my responsibilities. While the HPSL Program assists students in both our Medical and Dental Schools, I will limit my remarks to the larger Medical School component of this Program at Harvard since I understand that this is the issue of particular interest to the Committee.

I plan to address several aspects of this matter, including the particular importance and value of the HPSL Program to the education of medical students at our institution; the approach which Harvard takes to the management of all student loans, including those awarded under the HPSL Program; the specific status of the HPSL Program at Harvard; the difficulty which exists in comparing performance under one loan program

such as the HPSL Program to performance under a different program or performance under the same program at a different institution; and a number of suggestions we would like to make which, if implemented, would, in our opinion, improve the efficiency with which this and other federal loan programs are administered.

1. Importance of the HPSL Program

I want to begin by reiterating a number of points made by Dr. Daniel C. Tosteson, Dean of the Harvard Medical School, in his letter to you of December 1, 1981. Harvard views the HPSL Program as an extremely important and valuable program. Since the terms of the HPSL Program are favorable and since participation is limited to students of exceptional financial need, this Program is particularly helpful in providing access to medical education for students from low income families and from underrepresented minority groups. For example, during 1980-81 at the Harvard Medical School, 40% of HPSL recipients were minority group members, while only 20% of the total enrollment in the School came from minority groups. An equally important fact is that more than half--54%--of Harvard's HPSL recipients come from families in which the parental income is less than $12,000. This Program, together with the University's scholarship and other student aid programs, are major factors contributing to the great success of the affirmative action program of our Medical School. Achievement of affirmative action, to which we are enthusiastically and whole-heartedly committed, is, as you know, a goal of the Congress. With the help of this Program, Harvard's Medical School enrolls more underrepresented minority individuals and more economically disadvantaged students than almost any other private medical school in the nation.

The average debt of graduating medical students who have received financial aid is now in excess of $30,000. The spiraling debt levels necessarily incurred by students being graduated from private medical schools is a cause for increasing concern at Harvard as well as at other institutions. Naturally, it is students from the low income groups about whom we are most troubled. These students have the highest need and, therefore, are likely to incur the greatest debts and yet they have the least experience in the management of such debt. These students may also be subject to the greatest additional demands on their resources, such as the need to assist other members of their families. It is important that these students have available a mix of loan opportunities. They very much need to have access to low-interest, long-term, favorable financing such as that provided by the HPSL Program.

2. Administration of Student Loans at Harvard

At Harvard, the responsibility for student loan management is divided between administrators in Harvard College or in the various graduate professional schools and staff in our University Student Loan Office. In general, each professional school is responsible for selecting loan recipients as one component of their student aid decision process. In the case of the medical component of the HPSL Program, awards are made by the Medical School Student Aid Office with regard to the terms of the program and in coordination with all other student aid awards. Once a loan has been awarded, all subsequent administration, including disbursement, record keeping, and collection is handled by our Student Loan Office.

The HPSL Program is one of many loan programs in place at Harvard. On November 30, the University had approximately $95 million in loans outstanding to

current and former students. Somewhat less than $4 million of this total is outstanding to current and former medical students who are beneficiaries of loans under the HPSL Program. Student loan programs at Harvard--as well as at other universities--have grown rapidly over the past decade. The growth at Harvard has been particularly rapid because we have chosen to be a lender under the federally insured student loan program and because the University aspires to the objective of providing flexible and complete financial aid to all qualifying students. Ten years ago, we had less than $23 million outstanding in student loans. This total had more than doubled by 1976 and has subsequently doubled again. This rapid growth is continuing. I make these points to emphasize the size of our total student loan program and its growth so that you can understand our administrative activities in the correct context.

Harvard's major commitment to student loans has required many changes to the process by which those loans are administered. Harvard has recruited an administrative staff in this area which we believe to be truly first class. We have designed, built, and installed very advanced information processing and computer systems to support our management of and accounting for student loans. While I believe that our student loan system is of the highest quality, it is not perfect. It is fair to say that we were not fully prepared in advance to handle the rapid increase in the number of loans we have needed to administer. The administrative changes we made during 1978 and 1979 corrected this situation and we are now able to keep ahead of the workload. We are continuing to improve our management and we are working to resolve those few problems which arose in earlier years and which have not yet been fully corrected.

Accounting for and management of student loans is a complex and difficult process. Each loan program has its own particular conditions. Loans which are supported either by capital contributions, guarantees, or interest subsidies from the federal government are accompanied by regulations which are extensive, complex, and detailed. While it is our clear responsibility to comply fully with these regulations, their number, their detailed nature, the rate at which they change, and the difference between the regulations applicable to different federal loan programs make full compliance a challenging task. The character of these regulations, their requirement that we take specific steps with each individual student--such as the requirement for contact with each borrower several times per year--and their requirement that we be able to demonstrate after the fact that each and every one of these steps has been taken are among the reasons why we have needed to design a sophisticated computer and record retention system.

We believe that the collection system and process we have in place is as advanced as any used by any institution of higher education. Our discussions with members of the banking, collections, and public accounting industry suggest to us that this system compares well with the best used in private enterprise.

I make these points to demonstrate that we accept our responsibilities for the effective management of loans and that we treat that responsibility most seriously. We believe that our performance has been good. The objective of our administration is to provide our collection staff with the support necessary to identify potential or actual collection problems, to resolve these problems, and to support the detailed information collection requirements associated with each program.

It is Harvard's policy--and our expectation--that those of our students who borrow from any of our student loan programs should repay their debts fully and in compliance with all the terms of those debts. Those who do not do a disservice to themselves, to their professions, to the programs that have supported them, and to those students who will benefit from the same programs in the future. We actively pursue all problem cases. We expect payment--and payment in full.

3. The HPSL Program at Harvard

The HPSL Program at Harvard has been in place since the mid 1960's. One component of the regulations associated with the HPSL program is the requirement that an Annual Operating Report be filed to describe the status of the program. The report which Harvard filed for the year ending June 30, 1981 described the fact that loans had, as of that date, been awarded to 1,059 current or former medical students since the beginning of this program. Of these loans, 66 have been fully retired through repayment or cancellation according to the terms of the Program and 282 had been granted to persons who were then still students or who were in periods of deferment which the regulations provide. The remaining 711 loans outstanding on June 30, 1981 had been granted to students who were in some phase of the repayment process. Our report as of that date indicated that 468 of those students were in full compliance with the terms of their repayment schedules in every detailed way and that 243 persons required administrative attention either because the paperwork associated with the loans was not fully complete or because the correct amount of loan had not been billed or had not been repaid.

In managing all of our student loan programs, Harvard's policy is to follow all regulations scrupulously and in detail and to classify loans on the most conservative basis possible. While this practice is not always required and will sometimes work to our disadvantage, we believe it to be the correct course. In our internal systems and in our external reporting, we consider a loan as subject to special consideration if there is any aspect of its administration which is non-routine.

For example, if a student with an HPSL loan informs us that he or she has joined a branch of the armed services for a period of three years, we know that a deferment is to be granted to that student for the period of his or her enlistment. However, the HPSL Program regulations require an annual certification of continued status in the armed service. If the second or third annual certification we request does not arrive by the precise date required, then that student is referred to our internal collection staff as a potential problem. Clearly, in such a case the first task of the collection office will be to escalate its efforts to contact the student, to assure that he or she is still in the armed service, and to obtain the required documentation. When that documentation been obtained, the student's case will be returned to normal status and will not be followed in any special way until the next appropriate point. However, during the entire period between the expiration of one deferred status and the arrival of all required documentation, we consider the student non-routine, though it is clear that any delinquency in this case is technical. There are many different situations similar to this which can occur.

Also included amongst students requiring special consideration are those who have made all requested payments but who, for some reason, were billed an incorrect and low amount as a result of an error made by the University. For example, there are

a number of cases in which Harvard has discovered after the fact that the period of deferment from repayment which was granted was not precisely correct or that the repayment amount has been calculated at an incorrectly low level. The reasons why these errors have been made are varied but relate primarily to the rapid growth in the total loan system, to the extreme complexity of the regulations, and to the fact that the regulations for each federal program are written as if the borrower is indebted to that program only. In fact, many students borrow from more than one program during their undergraduate and graduate careers. The manner in which repayment amounts are to be calculated can become extremely complex in such situations and we have cases in which individual students are repaying federally financed or insured loans issued under as many as eighteen different conditions of repayment or interest rate.

Clerical errors can also be made. For example, in the case just described, it would be all too easy for a staff member to use the wrong version of regulations in dealing with a particular case or to fail to realize that the regulations in effect for a particular student were not be the current regulations but those in effect eight or ten years ago when that student first borrowed. Students who borrowed at different times and from different programs are subject to different conditions of repayment and loan processing.

These latter two examples, while technical in nature, do represent situations in which additional repayments should be made. In each case, our staff will contact the borrowers in order to place each person on an accelerated repayment schedules which will cure all problems well before the final repayment of the loan. In the HPSL Program, this has been done for many--but not yet all--borrowers for whom we have discovered errors. Until such problems are fully resolved, we continue to follow each borrower within our collection system.

Our recent discussions with the committee's staff indicate that there is great concern over the "delinquency rate" in this Program which has assisted people who have become physicians. In attempting to answer your questions and to provide statistics for Harvard, we have been particularly anxious to distinguish between the cases which are technical, those in which a borrower has failed to pay all amounts due and billed, and those in which the borrower has paid all amounts billed but in whose case we have discovered, perhaps recently, that an error in billing has been made. Internally, we consider a person to be a payment problem only when they have failed to make payments billed. When a graduate has made all payments we have asked them to make, then we do not consider it their problem, but ours. Undeniably, both cases will affect the HPSL Program but in only one case is the responsibility fully the student's.

In the data we submitted as of June 30, 1981, all such cases are combined together. The University reported in this way because it is the conservative approach, because the regulations do not specify clearly how the various different cases should be handled and because, for this program, the issue of a payment delinquency rate has not previously arisen and does not appear to be defined.

We have provided current data for this program as of November 27, 1981, to the Committee in an attempt to make these points clearly. These recent data show that loans have been granted to 1,078 students. 66 loans have been repaid fully and 299 have been granted to persons either still in school or in deferment. 510 are current in every way and 203 students are non-routine. This number of 203 in the non-routine category is a significant reduction from 243 only five months earlier and reflects the improved collection activity in our Student Loan Office and also improved communications with the students involved as has been necessary in order to obtain all necessary paperwork.

These 203 students can be divided into three groups. 91 are persons whom the University considers to be technically delinquent. These are the cases in which the student has paid Harvard everything that he or she has been told to pay. These cases included those such as the examples described above. 112 students are not in this category but are simply those who have not paid all that they owe. 83 of these students are being followed by our Student Loan Office but 19 have been referred to collections agencies or attorneys because we have been unsuccessful to date in collecting the amounts owed. Of all of these borrowers, a substantial number are paying more than the normal payment and thus are covering any delinquency which may exist. Only 11 cases are particularly serious problems, in that no payment has been made for 90 days. I do not believe that this represents a significant fraction of the total.

I believe that our collection effort is a very good one and is improving further. This Program, together with the others operated by the University, are complex. The populations involved are extremely mobile and the conditions of their employment are very complicated. More frequently than might be expected, individuals encounter personal and financial circumstances which cause them difficulty in repaying loans. With a loan portfolio of 26,000 individuals, I assure you that not only can almost anything happen but almost everything does happen. I do not want to leave you with the impression that I believe our student loan program to be perfect. It is not perfect but it is good.

4. The Difficulty in Defining, Computing, and Comparing Delinquency Rates and Other Performance Measures

In our discussions with your staff, the matter of delinquency rates has been the most significant topic of discussion. In any business which involves collection of funds,

delinquency rates are an important management control measurement. Definition of such a measurement should be based on a clear understanding of the objectives sought by the collection procedure.

Measurement of delinquency rate by borrowers is not particularly meaningful except as it relates to the need to staff the collection function. For example, if each of the 713 people now repaying their HPSL loans to Harvard were delinquent by $10, the delinquency rate by individual would be 100% and yet full repayment of all delinquent amounts would result in sufficient funds to support only two average students. On the other hand, if 35 people are delinquent in the amount of $2,000 each, then the delinquency rate by individual would be only 5%. However, in this case the full collection of the amount in question would allow the support of between 15 and 20 new students.

The method by which collection default rates are measured must reflect the objectives of the collection program. If the objective is to minimize the amount of delinquency, then the collection measurements should focus on the amount delinquent. However, if the objective is to minimize the number of people delinquent, then the measurement should focus on counts of individuals.

One deficiency in the HPSL Program regulations is that the Program incorporates no collection objective. The National Direct Student Loan (NDSL) Program which, at Harvard, involves more than four times the volume of dollars as does the HPSL Program and which is far more significant nationally, does have a definition of delinquency rate. That definition focuses on amounts due but, most

important, it reflects normal collection practice by allowing institutions to consider as not delinquent those who are making "reasonable progress" towards the payment of their obligations even though they may have accumulated a delinquency over time. This delinquency measurement clearly focuses on the real problems, i.e., those who owe significant amounts and who are not making a reasonable payment.

Comparisons between programs is difficult when different standards exist or when standards are absent. Comparison between institutions is even more difficult because institutions may interpret regulations in different ways, may make mistakes, or may be more or less conservative in their accounting.

Our review of the HPSL record with a substantial number of other institutions of higher education indicates two interesting points. First, many institutions do not manage this collection activity themselves but utilize external service bureaus. While those institutions are responsible for their own reporting, they must depend on the service bureau they engage. Second, a number of institutions who do manage the collection program themselves, as well as a number of service bureaus, incorrectly use the NDSL definitions for the HPSL Program. While this is an error, it is perhaps understandable since the NDSL Program involves so much more money and covers so many more people. In this way, they count as current those who are making "reasonable progress" on paying their loans. As I have pointed out, Harvard interprets --and has always interpreted--the HPSL regulations conservatively. If we used the NDSL formula, our delinquency rate would be about 4%. As you can see, comparison between institutions is made difficult as a result of both differences in interpretation and inaccuracies.

Normal debt management practice suggests that, should a loan become delinquent, the collector's first step should be to regain contact with the borrower and to obtain regular payments at least equal to those originally scheduled. Once payments of this level have been achieved on a steady basis, any delinquency will be recovered over time. I believe that once a delinquency is being reduced at a reasonable rate, the majority of collection efforts should be directed at assuring that accounts are maintained according to the agreed schedule and that any remaining nonpayment situations are reversed.

The delinquency rate for this program at Harvard compares very well with that of other institutions when that comparison is made using comparable data. We certainly can improve and we intend to. I would now like to turn to a few things you could do and which would help.

5. Suggestions for Improvement to the Efficiency and Effectiveness of Loan Program Administration

As will probably be clear from my earlier discussion, there are several actions that could be taken, either in legislation or in the regulations relating to these programs, which would significantly simplify their administration.

First, different federal programs operate under different conditions. Some of those differences clearly are necessary as a result of the objectives of the programs. Many, however, are not. For example, different programs use different rates of payment, different collection criteria, different requirements for contact with borrowers, different types of forms for collecting information, and different record

retention requirements. Similar regulations for all loan programs would greatly simplify administration if this objective is consistent with the fact that different congressional committees and federal agencies are responsible for the different programs.

Second, regulations associated with each federal program are written as if a student will be borrowing from that program only. In fact, many students borrow from more than one program. It is not unusual now for us to deal with students who have NDSL and FISL loans as undergraduates at one institution and may also have institutional loans, HPSL loans, and FISL loans while graduate students at Harvard. The methods in which each program must be administered are written as if that were the only program. To the extent the differences can be eliminated, this problem will be reduced. However, since all problems will not be resolvable, it would be very helpful if programs would contain some flexibility to allow reasonable administration. For example, note instruments should be written so as to incorporate current regulations rather than those in effect when the note is signed. Also, if students have loans from many programs, it would be helpful if those loans could all be administered according to the conditions of the program to which the student has the greatest debt.

Third, regulations associated with these programs have changed frequently and often without warning. The manual concerning the HPSL Program, for example, contains two pages simply to summarize the dates of the changes that have been made in this Program over the past 15 years. If program changes could be minimized and made with advance notice, administration would be greatly simplified. For example, the recent requirement for an audit of the HPSL Program is embodied in regulations

dated October, 1980 and delivered in the spring of 1981. Those regulations require that an audit for the twenty-four month period ending June 30, 1980 be completed by September 30, 1980!

Fourth, when changes are made, it would be extremely helpful if they could be made in what is known as a "grandfathered" state, i.e., to affect all previous borrowers immediately. One of the greatest difficulties we encounter is that individuals in one program will be subject to different regulations depending on the time at which they borrowed or the time at which they went into any of a large number of subsequent statuses. Greater confusion results when individuals have more than one loan from a single program and different conditions apply to different loans. Those cases I mentioned earlier which involve students with many different loans would obviously be greatly simplified by such a change.

Fifth, definitions of measurements of performance should be made clearly and in advance. Delinquency rates and other performance measurements are measures of the results of program administration and collection procedure. However, they are not outcome objectives. If the delinquency rate measurement focuses on amount of loss, rather than on the number of borrowers, then lenders will focus on collecting the largest amount first. If, on the other hand, the rate focuses on the number of borrowers, then lenders will naturally focus on collecting a large number of small accounts in order to improve their records. Clear statements of objective should be made and clear definitions. These definitions, once established, should be left in place for significant time frames. Continuous change to definitions will cause collection programs to be redirected frequently to achieve the new objectives. Such action is greatly inefficient.

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Finally, and with specific regard to the HPSL Program, I suggest two changes. First, 1980 amendments to the regulations say that notes in delinquency may be accelerated. However, the form of note prescribed by the regulations does not include this statement within the note. Since a lawyer seeking a judgment in court must rely on the signed note, not on the regulations, statements about acceleration in the regulations that do not appear in the note are of little help. The form of note which we are required to use should be modified.

Second, modifications to the HPSL Program in 1980 provide for the first time a method by which those few loans which prove to be truly uncollectible can be written off. However, there is uncertainty as to whether these regulations can be applied to loans which went into repayment prior to October, 1980. The regulations should be made applicable to all loans so that the small number of uncollectible loans can be written off. One major problem with all HPSL collection statistics is that there has, until now, been no method by which such loans could be written off. As a result, when you review this program and its delinquency, you are seeing all accumulated delinquencies since the mid 1960's.

6. Summary

I hope I have described our activities to your satisfaction. We welcome your interest in ways to improve this program and my colleagues and I will be glad to answer any questions you choose to ask us. Thank you very much.

Senator PERCY. Our next witness is Dr. Daniel Whiteside, Director of the Bureau of Health Personnel Development and Service, Health Services Administration, Department of Health and Human Services.

Dr. Whiteside, we would like to welcome you here this morning. From what we have heard so far, the fiscal side of this program has simply not been managed well by HHS or by many of the schools. Of course, this is not unusual for Federal credit programs. What is unusual is that this program loans money to individuals who for the most part are employed and are making a good living—especially the doctors, dentists, optometrists, and other highly skilled health professionals. For these borrowers, Uncle Sam would be first on their list to be paid back, not the last.

I will say HHS has moved to make some improvement in the past few months in response to the GAO recommendations and requests by my subcommittee staff. I hope that this trend will continue after the attention focused on this program subsides after this hearing.

I would like to say that in contrast to the previous administration, where I received absolutely no support and help for the debt collection bill that I introduced then, with the principal cosponsorship of Senator Sasser, this administration not only welcomed it but seized upon it. We are in the forefront, not only in supporting it but improving the program for debt collection.

Dr. Whiteside, the full text of your prepared statement will be included in the record. If you will give us time for questions and a chance to hear from our remaining witnesses, I would be grateful, and you may summarize your statement.

I would like to ask two questions first because we may have to recess the hearing for a few minutes. I don't think my business meeting at the Foreign Relations Committee will take more than 10 minutes at the most. I will come back if we do not find another Senator to chair the hearings. We are just waiting for a signal from them when they have a quorum assembled for that.

I would like to put these two questions to you. One of the frustrations that this committee has had in investigating this program is the almost total absence of reliable information on each school's default or delinquency rate as well as for the program as a whole. There is not only a lack of information, there is not even any standard for determining how to formulate a delinquency or default rate.

I was shocked to discover several months ago that HHS, formerly HEW, has never in the 17 years this loan program has existed compiled delinquency or default rates for any of the schools participating in the program or for the program as a whole. I was just absolutely stunned by this. When HHS finally did collect this data, it was because the GAO, and ultimately this committee, simply insisted that HHS do so. This is the most basic information necessary to operate any loan program in Government or business. What bank could go to its board of directors each year for 17 years and not know what its default rate was on the loan being made? Like the board of directors, the American taxpayers have the right to know whether these loans are being paid back.

Why did the department fail to compile this most basic information for over 17 years? I realize you are not personally held responsible for what happened 17 years ago and the intervening period. But if you could answer on behalf of the Department of HHS and its successor, HEW.

TESTIMONY OF DANIEL F. WHITESIDE, D.D.S., DIRECTOR OF THE BUREAU OF HEALTH PERSONNEL DEVELOPMENT AND SERVICE, HEALTH SERVICES ADMINISTRATION, DEPARTMENT OF HEALTH AND HUMAN SERVICES, ACCOMPANIED BY NORMAN ROSKOS, DIRECTOR, DIVISION OF FINANCING SERVICES

Dr. WHITESIDE. Yes. I think I can give you some information on that. In fact, other witnesses have already alluded to the reason for that.

In the implementation of these programs, the emphasis in the past has been placed on getting money out to individuals and to provide as many services as possible, and there has been very little interest until recent times in debt management in any of these programs.

Senator PERCY. Is it not true that while you did actually get, as I understand it, annual reports from universities, you did not compile a delinquency rate or default rate for each of the schools? According to your own staff, this was not done until GAO and this committee asked for it last year.

Dr. WHITESIDE. That is quite true.

Senator PERCY. In 1974, the GAO made many of the same recommendations for improving this program that they are making again today. In reaction to the GAO recommendations, HEW promised to improve oversight of the program. Here is what HEW said in 1974:

> In addition to improving the regulations and guidelines, it will be necessary to more aggressively monitor the programs in the schools. HEW has depended too heavily on the schools to use good management procedures.

Clearly it took a second GAO report this year, and a Senate investigation to get HHS moving. I have seen time and time again where GAO has made recommendations for improving the management of a program and the agency has agreed to make the necessary change and then nothing happens. The GAO report ends up on someone's shelf gathering dust. Given our present economic situation, the mood of the taxpayers, we simply cannot afford to have this happen again. This committee does have oversight over GAO. We work intimately with them. I have tried through the years to make certain that GAO recommendations be implemented, because you literally destroy the morale of a professional organization like that when you do not. So I just follow the practice steadily of updating those reports, putting them in a central file and then going back to see what happened.

Here again I am going to put that question to you, and we will be back in a year to see whether there has been a followup. The question is what assurance do we have that HHS will crack down in this area this time?

Dr. WHITESIDE. We will do everything that we possibly can to crack down on this area. It seems to me there is no excuse for not implementing the recommendations of GAO in the past. What we are planning to do is to increase our oversight in terms of visiting institutions over the coming year by about 345 visits this year. That should help. We will be visiting those institutions that have the highest delinquency rates and see if we can't give them some help.

In addition, in our 1982 budget we have requested funds to be able to provide technical assistance through contracts to institutions that need help in setting up their accounting procedures. One of the things

that we are trying to accomplish now is to automate our system for monitoring the schools. That plan has been approved by the Department. We are in the process of trying to get that implemented. As soon as we can get our system automated, we will be able to do a better job of tracking institutions both with respect to their delinquency rates and any excess cash balances that might be present.

Senator PERCY. Thank you, Dr. Whiteside. The full text of your statement will be incorporated in the record. Just one further question at this time.

I would like HHS to provide this committee with a complete list of each school in this program, the program as a whole, the delinquency and default rate based on OMB-Treasury standards within 18 days. I would like to do this not just for the medical schools but for dental schools and nursing schools and training programs for other health professions. Could you compile that information?

Dr. WHITESIDE. Yes, indeed.

Senator PERCY. Would it be possible for you to stay on for hopefully just 10 minutes and then testify as soon as I return.?

Dr. WHITESIDE. Yes, indeed.

Senator PERCY. We do have a quorum now assembled. The hearing will be in recess for 10 minutes then.

[Brief recess.]

Senator COHEN [presiding]. The committee will come to order.

Dr. Whiteside, why don't you proceed with your testimony? If you can, summarize any written remarks. I assure you it will be included in the record. We have one more panel following you which we will try to complete before noon.

Dr. WHITESIDE. I can do it in 5 minutes.

Senator COHEN. All right. Why don't you proceed.

Dr. WHITESIDE. I would like to begin by saying that programs that make up the Bureau of Health Personnel Development and Service have historically not paid sufficient attention to debt management.

Throughout the 1970's the emphasis on all of the Bureau's programs was on establishing the program, making it operational, and delivering services to as many individuals as possible. It is only the very recent past that the administration has been concerned with sound debt management.

During the past year, however, efforts have been made to improve our record in both debt management and debt collection. Let me briefly review the legislative history and the Federal and institutional roles in administration of these loan programs.

In 1963 the Congress authorized the health profession student loan program as part of an overall strategy designed to meet an expected national shortage of physicians, dentists, and other health professionals. As the program has evolved, it has provided long-term, low-interest loans to students in need and either repayment or cancellation of portions of the principal and interest on educational loans of graduates who agree to practice in shortage areas.

Current law provides for participating educational institutions to make loans at 9 percent to eligible health profession students for up to $2,500 a year plus the cost of tuition. There is a 10-year repayment period that begins after the student completes training. Eligible schools that want to participate apply to the Department for an allocation of funds and then subsequently establish a Federal capital

contribution fund for making loans to eligible students. Schools are required to contribute 10 percent of the total, with HHS contributing the remaining 90 percent.

Principal and interest on loans are returned to the fund, to be reloaned to other students, thus creating a revolving loan fund at each institution.

It is important in understanding the operation of the health profession student loan program that the committee recognize both the responsibilities and the limitations on the Federal Government in program administration.

The Bureau has responsibility for making the allocation of awards to institutions, developing the regulations and guidelines for participating schools to follow, and for monitoring the school's administration of the loan program.

Under current law, the Federal Government has no authority to collect money from individual borrowers, to assist schools in locating delinquent borrowers, or to have notes referred to the Federal Government for collection.

Senator COHEN. In other words, the full responsibility for distributing the loans or making the loans and collecting them is that of the schools?

Dr. WHITESIDE. That is correct.

The institutions are responsible for selecting the students to receive the loans, determining the amount of the loan, counseling the student at the time a loan is made regarding repayment obligations, conducting exist interviews prior to the student's graduation from the institution, maintaining contact with the student during the period of postgraduate training when repayment has been deferred, and for exercising due diligence incollecting the loans.

It should be noted the institutions bear the routine costs of administering this program.

Any discussion of delinquency rates must necessarily begin with a description of the various means of calculating these rates. There is no single approach to delinquency rate determination that is universally accepted as the current one.

There are two basic ways of computing delinquency rates. One is looking at only those loans in repayment status and computing the proportion that are delinquent. A second way is to look at the total loans, including those in deferment, those fully retired, and those in repayment status, and calculating the percentage of delinquent borrowers. This method of computation excludes those students in student status and grace periods. Delinquency rates can be calculated on both the number of borrowers and the number of dollars involved.

There is no question that both the schools and the Bureau still have their work cut out for them in terms of the overall management of the program. I am confident that this hearing alone has caused sufficient concern among responsible individuals that there will be immediate efforts made to improve the overall recordkeeping and debt collection.

Let me close by saying we are very pleased with the interest this committee has taken in debt collection. Improvement in debt management has been a priority of this administration since its inception and will continue to be. Today's hearing and your introduction of

S. 1249 are sure to go a long way toward providing the Department with the tools and necessary clout to achieve the goal of significantly improving on the collections of moneys owed to the Federal Government.

I will be pleased to answer any questions.

Senator COHEN. Dr. Whiteside, one of the frustrations that you may have heard expressed during the course of the morning is that we have been over this turf before. For example, a GAO study was done back in 1974 and the recommendations made then were essentially the same ones GAO is making now in 1981. In fact, in 1973, HEW, your predecessor, said that in addition to improving the regulations and guidelines, it was necessary to more aggressively monitor the programs in the schools. HEW had depended too heavily on the schools to use good management procedures.

This is what was said back in 1974. Yet we have heard from the testimony that virtually nothing has been done between 1974 and 1981 on the part of HHS or HEW. What are you going to do differently and how are we going to know you are doing something differently?

Dr. WHITESIDE. We have already issued revised guidelines for student aid administrators and have made these guidelines available to all of our participating institutions.

Senator COHEN. Are they substantially different? The gentleman from Harvard was complaining that we keep shifting back and forth with new guidelines too rapidly, adding to the complexity, and it only ends up being self-defeating.

Dr. WHITESIDE. I think the problem that was being referred to there, and indeed it is a very real problem, is that the legislation has been reauthorized six times. I have lost track of the number of times laws have been passed that have modified that legislation.

With each change in legislation, there is a change that has to be made in the regulations and in the administration of the program. A splendid example has to do with loan repayment and loan cancellation. Those provisions have changed so frequently that it is virtually impossible to get a student through school under a single set of regulations and requirements.

Senator COHEN. That is because Congress has changed the law six times.

Dr. WHITESIDE. Yes, sir.

Senator COHEN. Do you propose submitting to the Congress a change in the law? I mean, after all, the administration takes great credit for submitting programs for the Congress to adopt. Does the administration propose sending forth a new piece of legislation which will either simplify to some degree or make more uniform the loan guidelines, collection procedures, and so forth?

Dr. WHITESIDE. Last year the administration did submit a bill. We did not propose any changes in the current provisions with respect to loans. We thought that there had been so many changes that we ought to just let them stay in place as they currently are.

We did submit legislation requesting a number of other kinds of changes with respect to the administration of the program.

Senator COHEN. So you can have changes in regulations without having changes in the laws?

Dr. WHITESIDE. That is true, you can, but we don't plan any.

Senator COHEN. You said you did. You just said you have submitted new regulations that try to deal with many of these.

Dr. WHITESIDE. We submitted legislative proposals that would have addressed debt management problems. You are quite right. If those legislative proposals were enacted, we would have had to change our regulations.

Senator COHEN. So now you don't want us to adopt those changes.

Dr. WHITESIDE. Indeed we do want you to adopt those changes.

Senator COHEN. I don't want to go around this too many times, but I think the point was well made and well taken that our system has become so complex and so confusing that we really contribute to this circular sort of reasoning. Frankly, that is one of the reasons I objected to the creation of the new Department of Education. The rationale for it was that we were going to consolidate all of our educational programs under one roof and thereby have uniformity and streamline that bureaucracy. Lo and behold, we had to exempt virtually every education program to get enough political support to create the Department of Education. So nothing was really ultimately accomplished in my judgment; certainly not of the magnitude promised.

But I think the message should be taken by Congress and by this administration as well that what we need is a great sense of uniformity, within reason, with enough flexibility built in, and a reduction in conflicting, confusing, complex regulations. I think this administration is committed to that.

Dr. WHITESIDE. I would agree.

Senator COHEN. One way of trying to respond to that original 1974 GAO report would have been to collect information on delinquent payments by various schools. Yet not one single record was kept or maintained from 1974 to the present time concerning delinquency in payments. How do you account for that?

Dr. WHITESIDE. That is really not quite correct. The annual operating report does collect information on the number of delinquent borrowers and the amount that those borrowers are delinquent. It is quite true, however, that we did not calculate delinquency rates for individual schools.

Senator COHEN. Under the national student defense loan, if the delinquency rate is too high, the school can be terminated from the program; is that correct?

Dr. WHITESIDE. That is my understanding; yes.

Senator COHEN. The staff has been out in the field conducting interviews, and they found that such a club has worked as a very strong incentive for various schools to implement the kinds of procedures that we are talking about here today. But in the health professions program, there is no such threat, apparently.

Would you recommend that a similar sort of club be wielded; namely, that in the event delinquency rates are found to be too high, we ought to have one uniform standard. We ought to take into account, it seems to me, the delinquency standards by HHS, OMB, and GAO and decide upon one so we don't get caught in a conflict between the 5-percent charge by OMB or GAO and a 4-percent analysis by the institution. We ought to have some accepted uniform standard for evaluating delinquency accounts. Would you recommend we do that?

Dr. WHITESIDE. Yes, indeed. I think there should be a standard applied to all loan programs of the Federal Government.

Senator COHEN. Have there been any terminations of institutions in the health professions loan program?

Dr. WHITESIDE. There have been institutions that for one reason or another have elected to terminate their participation in the program. No programs have been terminated by HHS, however.

Senator COHEN. Senator Percy was going to raise a question that was related to his original opening statement. There really isn't a whole lot of incentive to make payments on delinquent accounts under existing regulations. The penalty for not paying back loans on time may amount to about, I guess, $2 a month. If you have a $20,000 or $30,000 outstanding loan, a penalty of $2 a month is not much of an incentive. Do you agree with that?

Dr. WHITESIDE. I would certainly agree with that.

Senator COHEN. Do you intend to make recommendations in terms of changing the maximum allowable penalty that can be added to a delinquent account once we arrive at some stated standard?

Dr. WHITESIDE. Yes.

Senator COHEN. I think that is all we have for now, Dr. Whiteside Mr. Roskos, did you intend to make a statement?

Mr. ROSKOS. No, sir.

[Dr. Whiteside's prepared statement follows:]

PREPARED STATEMENT OF DANIEL F. WHITESIDE, D.D.S.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I want to begin by introducing a member of my staff who is accompanying me here today. Mr. Norman Roskos is Director of the Division of Financing Services, of the Bureau of Health Personnel Development and Service.

The BHPDS is a new Bureau recently created, with staff transferred to it in January of 1981 for the purpose of combining the student assistance programs with the National Health Service Corps (NHSC), one of the principal health care delivery service programs of the Department. In organizing the Bureau, debt management and debt collection activities were given a high priority with the establishment of the Division of Financing Services. This Division with its professional staff of 14, has responsibility for the fiscal management and collection of debts in 9 programs, 5 of which are still current. The ongoing programs include the Health Professions Student Loan (HPSL) Program (the principal subject of this hearing), the Nursing Student Loan (NSL) Program, the Health Education Assistance Loan Program, the National Health Service Corps (NHSC), and the NHSC Scholarship Program. Although the other four student assistance programs are no longer authorized, the Division is still collecting on outstanding obligations from these programs. As of September 30, 1981, BHPDS had responsibility for managing close to one

billion dollars of outstanding funds, 16 million of which were for programs no longer funded.

I want to begin by saying that the programs that make up this Bureau have historically not paid sufficient attention to debt collection. While this can be attributed to some degree to priorities, it is also an artifact of health professions education in general and debt collection in particular. The nature of health professions education is such that from the time a loan is made until repayment begins may be a period as long as eight years. With better than 70% of the HPSL money appropriated between 1970 and 1978, debt collection did not even begin to be an issue until the late 1970s, when it became apparent that debt management practices had not been up to par at many institutions. Throughout the 1970's the emphasis in all of the Bureau's programs including the NHSC, was on establishing the programs, making them operational and delivering services to as many individuals as possible. It is only in the very recent past that either the Congress or the Administration has been concerned with sound debt management in these programs. During the past year, however, efforts have been made to improve our record in both debt management and debt collection. In addition to creating the Division of Financing Services and making it the focal point for all Bureau collections, I have instructed my staff to pay particular attention to the collections from the NHSC sites. Our efforts have paid off. In late 1980, GAO issued a draft report on the reimbursements from NHSC sites and indicated that from the authorization of the program in 1970 through

1979, NHSC sites were billed $59 million by the Federal Government and yet through September 30, 1980 only $13 million had been collected. Immediate steps were taken to try and rectify what was unquestionably an unacceptable situation, and in the last year substantial progress has been made in NHSC collections. With the institution of a new billing management information system, sites are now billed twice annually and both regional office and headquarters staff have the capability to monitor the outstanding balances and collections from each site. Fee schedules have been reviewed and sites provided with new guidelines for establishing fee schedules that are competitive with the local market area without violating anti-trust legislation. In addition, the staff of the regional offices have been enlisted and trained to monitor site billing. These efforts have resulted in a 400% increase in NHSC collections between FY 1979 and FY 1981. More specifically in FY 1981 $3.5 million was collected, as compared to the $13 million collected from the beginning of the program through 1979. During the first two months of this current fiscal year $2.8 million was collected. Just a week ago yesterday we received $90,000 in one day. We have every reason to expect that this progress will continue.

While collection efforts in this last year have focused on the NHSC, the other programs for which BHPDS has responsibility have not been ignored. In FY 1981, collections for all BHPDS programs totalled $10 million. The personnel costs for the staff in the Division of Financing Services who

worked just on debt collection and data processing costs for administering this Bureau-wide collection program were only $360,000.

The Health Professions Student Loan Program

Before I share with you the activities of the last year aimed at improving the management of HPSL and NSL, let me briefly review their history.

In 1963 the Congress authorized the Health Professions Student Loan program as part of an overall program designed to meet an expected national shortage of physicians, dentists, and other health professionals. As the program has evolved, it has provided long-term, low interest loans to students in need; scholarships to students with exceptional financial need; and either repayment or cancellation of portions of the principal and interest on educational loans of graduates who agreed to practice in designated shortage areas.

The basic purposes of the Student Loan Program have remained essentially unchanged since its initial enactment in 1963; however, in eighteen years the program has been reauthorized six times with program modifications in most of the legislative renewals. Changes were made in the types of institutions which were eligible to participate; amount of loans; rate of

interest; and terms for repayment. During this same eighteen year period, the program was decentralized in 1973 to 10 regional offices and per the instructions of Congress in P.L. 94-484, passed on October 12, 1976, recentralized again in 1976.

Most recently, the program was reauthorized in the Omnibus Budget Reconciliation Act of 1981, P.L. 97-35, although the Administration is requesting no funds for these programs in FY 1982. Current law provides for participating educational institutions to make loans at 9% to eligible health professions students for up to $2;500 a year plus tuition. Medical and osteopathic students who receive awards must be of exceptional financial need. There is a ten-year repayment period which begins after the student completes training. A loan may be partially repaid if a student agrees to serve in a health manpower shortage area.

While the legislative history of the Nursing Student Loan program is not identical to that of HPSL, the complexity of the program and its administration by the schools are essentially the same. Similarly, the Bureau's policies for the management of the two programs are generally one and the same. Most of my remarks today will focus on HPSL; however, they generally apply to the NSL program as well.

Program Administration

Eligible schools who want to participate in the program apply to the

Department for an allocation of funds and then subsequently establish a Federal Capital Contribution (FCC) Fund for making loans to eligible students. Schools are required to contribute 10 percent of the total, with HHS contributing the remaining 90 percent. Principal and interest collected on loans are returned to the fund to be reloaned to other students, hence creating a revolving loan fund.

In 1968 through 1970 health professions schools could also participate in the loan program through the Federal Capital Loan (FCL) Fund. This fund is distinct from the Federal Capital Contribution Fund noted above in that no contributions from the schools were required for participation in this Fund; advances of funds were made to the schools on promissory notes, and collections of principal and interest from student loans are remitted to the Department in payment of the notes. Funding for the Federal Capital Loan program ceased in 1971. As money is collected from borrowers, schools are repaying the Federal Government the money they borrowed to establish this program at the institution.

Federal Role

It is important in understanding the operation of the HPSL program that this Committee recognize both the responsibilities and the limitations of the Federal Government in program administration. BHPDS has

responsibility for making the awards to the institutions, developing the regulations and policies for the participating schools to follow in both the awarding and collection of loans, and monitoring the school's administration of the loan program. Under current law, the Federal Government has no authority to collect money from individual borrowers, to have notes referred to the Federal Government for collection, or to select students who will receive awards. The statute contains language which reinforces a "hands-off" policy on the part of the Government. In the view of the Department the statutory language underscores the importance of separating the Federal and institutional function.

The question has been asked whether the Federal Government has authority to declare a previously eligible institution as ineligible for failure to comply with the policies of the program. In implementing the statute, the program developed a regulation allowing the Federal Government to terminate a school's participation for non-compliance. Historically, however, and consistent with the philosophy that the program was created to serve students, the Department has taken the position that if possible schools should not be excluded from the program for two reasons. First, currently enrolled students should not be penalized for the transgressions of their predecessors. Second, when the program was initially established one of its purposes was to allow schools to accumulate over time a revolving loan fund which could be used to meet students' needs for financial assistance.

Institutional Role

The school's responsibilities in administering its loan program are also quite explicit. The institutions are responsible for selecting the students for awards, processing the promissory notes, counseling the student at the time the award is made regarding repayment obligations, conducting exit interviews prior to a student's graduation from the institution, maintaining contact with the student during the period of postgraduate training when repayment has been deferred, and exercising due diligence as defined in the program guidelines. The institutions bear the cost of administering this program and may only use monies in the loan fund to pay for the litigation to recover loans and for the services of collection agencies when the school is unable to collect loans from delinquent borrowers.

BHPDS Activities

Having reviewed for you the complicated history of the program as well as the responsibilities of the Department and participating institutions in the management and administration of the loan programs, I would now like to tell you of the activities of the Bureau during the last year or so.

In June of 1980, the program sent a letter to all participating institutions on the subject of excess cash balances with specific instructions on when it was appropriate for schools to draw down funds from their Federal account. Schools were told that if their general ledger cash balance for the Federal Capital Contribution student loan account on June 30, 1980, plus anticipated incomes during the next budget period is greater than the anticipated amount needed for loans during the following academic year, the difference between the two amounts should be considered "excess cash" and the Federal share of that amount returned to the Public Health Service. As a result of this effort, the Bureau has recovered $5.5 million from the schools. In FY 1981, 256 health professions and nursing schools requested zero dollars because of sufficient cash balances.

- In February of 1981 the Bureau issued an updated version of the Student Financial Aid Guidelines and provided each participating institution with a complete set of the Guidelines. The Guidelines, published in three volumes, focused on health professions programs, nursing programs, and fiscal management. I will leave today a copy of these Guidelines for the Committee's review.

- During the period between February to May 1981, the Bureau conducted a series of nine workshops around the country for institutional Financial Aid Administrators and Business Officers. These workshops, attended by 1,036 people, were designed to familiarize the personnel at the schools with the new guidelines and to assist institutions in improving program administration, including procedures of sound debt management and loan collections.

- Between June 1, 1981, and September 30, 1981, Federal staff and contractors to the Bureau conducted a total of 130 site visits to schools to evaluate program operations, identify program strengths and weaknesses, improve program management, and make recommendations regarding needed changes in program administration. Each contractor provided the Division with a written report on each site visit.

- Following the receipt of the report on each site visit the Bureau sent a letter to the authorizing official of the institution outlining suggested areas for change as well as modifications which were required to be made in order to bring the program into compliance with Federal regulations or program policies. For each area in which corrective action was to be taken, a date by which the action must be completed was established. The assessment

process requires that institutions submit a written response acknowledging the required changes and including a plan for accomplishing the mandatory changes within the required time frame.

- In May 1981, the Department proposed legislation to improve debt management and collection procedures. These proposals were included in S.1284, the Administration's Health Professions Bill. Of the proposed amendments those dealing with the NHSC scholarship program were incorporated in the Reconciliation Act. Two of the others are included in S.1249, the Debt Collection Act of 1981.

- In response to the GAO's concern about our ability to calculate and subsequently monitor delinquency of loans, in June of 1981 the Bureau developed an addendum to the Annual Operating Report (AOR) and requested all institutions to submit it with their AOR.

- During the last year, program staff have made efforts to provide regular communications to school loan officers. A policy memorandum was sent to all schools following the Guidelines workshops which answered in writing many of the questions raised at the workshops. A second informational memorandum was sent following the passage of P.L. 97-35 summarizing the changes in the statute.

Analysis of the Data

Any discussion of default and or delinquency rates must necessarily begin with a description of the various means of calculating these rates. There is no single approach to delinquency rate determination that is universally accepted as the correct one by all parties. Our discussion today will be limited to two ways of computing delinquency rates: 1) only those loans in repayment status; and 2) total loans including those in deferment, fully retired, and in repayment status. These methods of computation exclude those loans in student status and in grace period. One method excludes those loans in deferment as well. Delinquency rates can be calculated on both number of borrowers and number of dollars. In the view of the Department, the methodology which gives the schools credit for the large amounts of money that has been collected and their efforts at due diligence is the most realistic approach.

Regardless of how the delinquency rate is computed, the rates are unacceptably high. Because of our concern regarding this degree of negligence, the Bureau sent a letter to all schools alerting them to the problem and underscoring the seriousness which the Department was paying to debt management. Heath professions and nursing schools with delinquency rates in excess of 5% and 10% respectively were told to develop an institutional action plan in writing and have it on file at the institution within 30 days.

BHPDS ACTION PLAN

There is no question that both the schools and the Bureau still have their work cut out for them in terms of the overall management of the program. I am confident that this hearing alone has caused sufficient concern among responsible individuals that there will be immediate efforts made to improve the overall record-keeping and debt collection. More specifically, let me share with you the plans of the Bureau for improving the Federal end of the management of this program.

- During FY 1981, the Bureau developed plans to implement an improved automated system for faster recording and reporting of data for both the HPSL and NSL programs. Implementation of this new information system is underway. By the beginning of FY 1983, schools participating in the HPSL and NSL programs will be expected to submit detailed fiscal reports on a quarterly basis (instead of annually as at present). The new automated system, which will provide the Bureau with the ability to track the management and collection of debts associated with these student assistance loan programs, is designed to avoid many of the problems identified by GAO in its recent report on the Information Systems of the Guaranteed Student Loan Programs. The BHPDS system will allow this Bureau to track schools with high delinquency rates and excess cash balances, and insure that all participating

institutions are exercising due diligence and observing PHS policies as described in the Student Financial Aid Guidelines.

In addition to implementing an automated information system the Bureau is planning to institute several other new practices including the following:

- Summarizing the problems identified by GAO and site assessors and distributing the summary to all program participants. In January 1982, BHPDS will do a policy memorandum clarifying program policies where there are indications that institutions are not in compliance.

- Encouraging schools to set up monthly repayment schedules for all borrowers. Currently, students are permitted to select a repayment plan of their choice, consistent with the parameters now in statute, and many schools permit annual and semi-annual payments.

- Conducting additional assessments during this current fiscal year. Based on an analysis of the data on hand, 345 institutions, not previously assessed, will be selected for assessments beginning with medical schools with high delinquency rates. In addition, institutions previously visited with significant problems will be reassessed by Federal or contract staff. The FY

1982 budget also contains a request for funds to provide technical assistance to institutions that need help with program management as identified through site assessments.

- Changing the reporting requirements to monitor aging accounts. The Annual Operating Report has in the past collected data on accounts overdue more than 120 days. This policy will be changed, and effective with the June 30, 1982 report the AOR will request data on aging of all delinquent accounts.

- Meeting with billing agencies servicing participating institutions. These are private businesses that have contracted with schools to manage the billing and repayment obligations of borrowers. Within the next few months Bureau staff will meet with representatives of these commercial service bureaus to bring them up to date on the needs of the Department in administering these programs. It is our hope that these service bureaus can be of greater assistance to HPSL and NSL participating institutions if they understand the requirements which the institutions they service are obligated to meet.

- Making available advisory briefings on these two programs to each of the professional associations representing the participating health professions institutions. BHPDS staff will be available to

meet with financial aid and fiscal officers during this coming year at the regional and national meetings of these groups. One of the areas needing improvement is the communication between the fiscal and financial aid officers at some institutions. These meetings, which would focus on the issues which have been raised today and in the briefing provided to us be GAO staff, as well as the program deficiencies noted in the site assessments, would instruct the individuals responsible for administration of these programs on corrective actions which need to be taken. A review of the data reported from the assessments would dictate the agenda for any such meetings:

.. Programs have been found to have problems with needs analysis due to improper calculation of student budgets and student resources;

.. Schools are not clear on how to deal with excess cash balances and thus need to know how to reconcile projected income with anticipated need.

.. Definition of exceptional financial need has not been uniformly applied;

- General ledger data has often not agreed with that reported in the Annual Operating Report;

- Truth in lending statements have frequently not been signed or secured in a number of institutions;

- Poor accounting procedures have been utilized in selected programs; and

- Due diligence in loan collection is frequently not being exercised--improper exit interview procedures, billings not being sent on a regular basis, and inadequate past due follow-up activity.

- Procedures for writing off uncollectible loans are not understood in selected institutions.

In addition to addressing these deficiencies at workshops of school personnel, contacts with personnel of service bureaus would focus on these items as well.

Let me close by saying that we are pleased with the interest this Committee has taken in debt collection. Improved debt management has been a priority of this Administration since its inception and will continue to be. Today's hearing and your introduction of S.1249 are sure to go a long way toward providing the Department with the tools and the necessary clout to achieve its goal of significantly improving on the collection of monies owed the Federal Government.

This concludes my prepared statement. I will be glad to answer any questions which you or the other members of the Committee may have.

Senator COHEN. Our final panel for this morning will be Dr. John Cooper, president of the Association of American Medical Colleges, and John Carl, legislative affairs coordinator of the American Medical Student Association.

Dr. Cooper?

TESTIMONY OF JOHN COOPER, M.D., PRESIDENT, ASSOCIATION OF AMERICAN MEDICAL COLLEGES; AND JOHN CARL, LEGISLATIVE AFFAIRS COORDINATOR, AMERICAN MEDICAL STUDENT ASSOCIATION

Dr. COOPER. Good morning. Thank you very much, Mr. Chairman.

I am John Cooper, president of the Association of American Medicall Colleges, which serves as the national representative for our Nation's 126 operating medical schools, their students and faculties. I appreciate this opportunity to share with you the association's views on improving repayment of educational loans incurred by medical students.

The shrinking availability of adequate student loan funds during this era of rapidly escalating costs has become one of the association's most serious concerns. The cost of a medical education is becoming almost prohibitive for the average individual and the AAMC has become increasingly fearful that with fewer and fewer dollars available through either loans or scholarships for needy students, access to a medical education will soon become limited to only the affluent. We have some data on that to indicate that is already happening. The health professions student loan program that is under discussion today, as currently structured and administered, has proven to be a highly efficient and effective device for preventing this socially undesirable outcome. The enormous value of the program impels the association to urge that whatever problems that may have arisen in the operation of this program not be exaggerated or used as a weapon—wittingly or unwittingly—to undermine or destroy it. Let's don't throw the baby out with the bath water.

First of all, the association wishes to state its unequivocal belief that all medical school graduates are obligated to repay their loans in accordance with the terms of their agreement. Data recently gathered by the Health Services Administration for the committee suggests that the efficiency of collection procedures varies among institutions and that some graduates have been less than conscientious in timely loan repayment.

While the association seriously questions the validity of much of the HSA collected data and believes that even where the data is accurate the real seriousness of the degree of delinquency is misrepresented, I want to repeat that we view that any delinquency is deeply disturbing, for in the HPSL program it denies another student badly needed support.

Second, the association is very anxious to work with the Congress and the Health Services Administration, the medical schools, and the universities to improve debt collection. The association believes that activities that will further this goal include:

Work with university presidents through its membership on the Association of American Universities/American Council on Education/National Association of State Universities and Land Grant Col-

leges' Joint Committee on Health Policy to explore more effective ways to increase collection of student loan payments. We have useful avenues of approach. The nature of professional advancement in medicine requires that physicians rely heavily on their medical schools for future professional contacts, letters of recommendations, and oftentimes as places of employment for some period during their career. Loyalty to the medical school as part of the university may be helpful in improving collections.

I would like to point out that since some of the schools have been apprised of this problem just a week or two ago, a number have already initiated corrective action. The dean of the University of Florida informed me that the university has modified its system to send him each month a list of delinquent borrowers. Requests for recommendations and evaluations by the dean will be compared with the list; those found to be dilatory will be asked to make arrangements to repay their loans before the school responds to the request for assistance. In addition, the University of Arizona has within the last week transferred its entire collection procedure for HPSL loans to the medical school.

We also believe we can conduct education programs on debt collection procedures. Every year the AAMC sponsors a series of workshops on financial aid made possible through a grant from the Robert Wood Johnson Foundation. These workshops are designed to familiarize and educate student fiscal aid officers concerning the various assistance programs to meet toe financial problems of medical students. It is our intention to place increased emphasis in these forums on problems of debt collection and to highlight examples of effective procedures in institutions. We also plan to expand participation to include those individuals, either in medical schools or parent universities, responsible for debt collection. In addition, the programs of the four regional meetings of the AAMC's group on student affairs will focus on debt collection problems.

In terms of suggested legislative remedies, the association does not believe it is necessary or wise to embody collection procedures in statute. However, it does believe that enactment of some of the additiona' safeguards contained in S. 1249 would prove useful. Specifically, the association endorses those provisions of the bill that would assist in "skip-tracing" and in establishing improved mechanisms to track down recalcitrant borrowers.

Finally, I would like to note that I intend to personally discuss—and indeed already have made strong representations—to the deans of every school with unacceptable delinquency rates—concerning the need to eliminate this problem.

Again, I would like to emphasize the AAMC's strong interest in working with the Congress and the Health Services Administration in alleviating these problems. I have no doubt that the identification of the problem of collection will result in immediate and effective steps to effect an improvement.

Thank you for your attention. I would be happy to answer any questions you have.

Senator COHEN. Dr. Cooper, you indicated that the University of Arizona has within the last week transferred its entire collection procedure for this program to the medical school. What does that mean?

Dr. COOPER. In most institutions the debt collection process is carried out by the university and involves the very large number of debt programs with which all of the students in the university are involved. Certainly for efficiency's this can be justified. On the other hand, as I pointed out, the student has a unique relationship to the medical school which I believe in the case of Arizona they feel would improve the efficiency of collections. As I have outlined in my testimony, by having the debt collected by the medical school and by having the personnel actively participating in the collection effort and by using the procedures that I have noted in my remarks to make certain that delinquents are stimulated to repay their debts, we believe that the collections would be improved.

Senator COHEN. The only point I wanted to make was this committee would want to know whether or not the medical school has an efficient record of collection. Simply transferring it from the large university to the medical school in and of itself doesn't tell you very much; do you agree with that?

Dr. COOPER. I am sorry; I didn't hear your question.

Senator COHEN. The point was simply that the univesrity's transferring the collection responsibility over to the university's medical school, unless you can show that the medical school itself would have some record of efficiency in collecting debts, really doesn't make much of a change, other than shifting the burden from the large part to the smaller part.

I understand what you are saying in terms of the relationship between the medical school and the students, the implication being that the medical school is watching over the program much more closely and therefore there is additional pressure put on the recipient.

Dr. COOPER. I think this is a very critical and important program to the medical school, as it is to other health profession schools, and one which I am sure they will spend a great deal of time and attention on.

Senator COHEN. On what basis, Dr. Cooper, does the association seriously question the validity of the data gathered?

Dr. COOPER. We have contacted some of the schools on which the data has been presented by the staff and by HSA. In seven of the 10 institutions that we contacted, there are differences in the figures.

Unfortunately, in some of the schools—let's take the University of Pennsylvania, which is a very good example of what I think happened. At the University of Pennsylvania, the figures which are not up here now, but which were in earlier figures of the HSA and of the committee staff, show there was a 79 percent delinquency rate. Actually, using the same criteria that were used by the HSA in the original request and by the staff——

Senator COHEN. The staff didn't use the University of Pennsylvania because the data was not sufficient.

Dr. COOPER. The University of Pennsylvania presented the complete data to the GAO and the staff.

Senator COHEN. I am saying this staff did not use the University of Pennsylvania as an example.

Dr. COOPER. It is on some of the original material that was passed out by the staff, and it is a basis——

Senator COHEN. Why don't we do it this way. Why don't you submit, if you would, as soon as you can your analysis of where this information is inaccurate. That would be very helpful.

Dr. COOPER. Because this data, including the University of Pennsylvania, that was used in the press release to identify the number of physicians that were in arrears and the amount of money that was in arrears.

Senator COHEN. So it is your testimony then that much of the information that has been gathered to date is——

Dr. COOPER. We could not do all of the schools. For many of those we have been able to get data from, we have found there is evidence of error.

Senator COHEN. We get in the same problem where Harvard, for example, has a much different basis for assessing. Do you get into that at all?

Dr. COOPER. No, that we haven't gotten into. Let me take the University of Arizona, which the percent delinquent 90 days or more according to HSA on the number of borrowers was 47.06, and the actual number we got from the University of Arizona was 12.22.

Senator COHEN. If you would, submit that information so we can look and see whether in fact there have been misinterpretations or simply a conflict.

[Information subsequently submitted by Dr. Cooper follows:]

aamc association of american medical colleges

JOHN A. D. COOPER, M.D., PH.D.
PRESIDENT

202: 828-0460

December 23, 1981

Honorable Charles H. Percy
Chairman
Subcommittee on Energy, Nuclear
Proliferation and Government Processes
Committee on Governmental Affairs
United States Senate
4321 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. Chairman:

The purpose of this letter is to respond to the request of Senator Cohen for an explication of the Association's statement questioning the validity of much of the data presented at the hearing on "Debt Collection in the Medical Profession". The Association's view is based on the results of a telephone survey that it conducted immediately after being made aware of the information provided to the Senate Committee by the Health Services Administration. The AAMC staff spoke directly to the Deans of seventeen of the "most delinquent" medical schools, who in turn supervised a careful review of the earlier submission from their institutions and, when satisfied of the accuracy of the data, reported it back to our staff. Table I, attached, compares the results of the AAMC telephone survey with those provided the Committee by the Health Services Administration (HSA). This AAMC sample represents approximately 20% of the 83 HSA reported schools.

Clearly, there are differences, particularly striking in the cases of the first nine of the seventeen schools listed. The AAMC staff attributes the differences to several factors:

- the survey instrument used by the HSA was entirely new and totally unfamiliar to the school officials called upon to execute it;
- the response time was short;
- the purpose for which the information was solicited and the importance of accuracy were not highlighted;
- the data elements in the survey were very different from those which school officials had become accustomed to providing to HSA over many years;

- the instructions were terse and various respondents choose, for whatever reason, to report cognate data implied by but not explicitly requested, differently;

- the HSA asked the schools to report the number of students who had renegotiated their repayment schedule as a nontabular addendum; HSA arbitrarily categorized all of these as delinquent, whether or not they actually had been in arrears.

These reasons, in our view, account for the differences between the HSA and the AAMC surveys. It is our further view that the HSA data are in error, while the AAMC's are correct. A sense of fairness would seem to us to have warranted more painstaking verification before the publication of highly critical information.

As far as our view that the data were subject to serious misinterpretation is concerned, the AAMC believes that the most significant measure of delinquency is the amount or the percentage of debt that is overdue for payment. This statistic appears to us to be the one most commonly used to characterize either the conscientiousness of debtors in repaying their obligations or the zeal of lenders in collecting their due; it should be noted that the Department of Education relies on this method. The last column on Table I shows that the magnitude of delinquency in these seventeen schools was quite modest with few exceptions. Coupling this data to the incidence of delinquent borrowers suggests that quite a few students are slightly in arrears on repaying their indebtedness, a conclusion quite different from the one that one would draw looking simply at the fraction of borrowers delinquent.

It should also be pointed out that many borrowers are simply technically delinquent. Recall that the repayment on HPSL loans is deferrable while the borrower is in residency training or engaged in a form of public service. However, in order to defer loan payments, the borrower must go through a rather formal and somewhat tedious application process, which may understandably be forgotten or ignored during the hurly burly of entering residency training. Thus, the delinquency statistics presented in Table I overestimate actual delinquency rates.

Finally, as I noted during the hearing, the Association is deeply disturbed that there is any delinquency in this very valuable program. Again, the Association is determined to help eliminate whatever problems exist in this area and is eager to work with the Congress towards this goal. However, an exaggeration of the problem---as suggested by the tone of the hearing---serves no useful purpose and could seriously undermine a highly effective and very necessary program of financial aid to needy health professional students.

If I or members of my staff can supply you with further information, please don't hesitate to contact me.

Sincerely,

John A. D. Cooper

John A. D. Cooper, M.D.

TABLE I
HEALTH PROFESSIONS STUDENT LOAN COLLECTION DATA

*SCHOOL	BORROWERS						PRINCIPAL
	NON-DELINQUENT		DELINQUENT		% DELINQUENT		
	HSA REPORTED	AAMC REPORTED	HSA REPORTED	AAMC REPORTED	HSA REPORTED	AAMC REPORTED	% OF $ AMOUNT DELI 90 DAYS OR MORE (AAMC REPORTED)
UNIV of PENNSYLVANIA	18	564	68	54	79.07	8.72	4.24
CASE WESTERN	168	234	82	16	32.80	6.40	1.91
NORTHWESTERN	436	441	140	16	24.31	2.87	.29
UNIV OF MARYLAND	616	616	391	159	38.83	20.52	6.89**
INDIANA UNIV	642	769	146	19	18.53	2.41	.76
ST. LOUIS UNIV	415	415	80	32	16.16	7.71	2.26
LOYOLA	276	276	94	60	25.41	17.86	16.80
UNIV OF ILLINOIS	879	963	276	192	23.90	16.62	8.00
UNIV OF HAWAII	81	99	21	20	20.59	16.81	4.09
VANDERBILT UNIV	179	182	31	24	14.76	11.65	5.77
HOWARD UNIV	227	227	493	428	67.57	65.34	52.83
TUFTS UNIV	380	389	35	26	8.43	6.21	1.30
U-CAL, SAN DIEGO	123	126	21	18	14.58	12.50	7.23
U-CAL, DAVIS	224	224	35	29	13.51	11.46	6.98
COLUMBIA UNIV	318	332	59	55	15.65	14.59	2.44
ALBANY MED COLLEGE	325	355	32	32	8.96	8.27	1.14
UNIV OF WASHINGTON	601	601	90	89	13.02	12.90	2.60

* In order of difference between HSA percentage and AAMC percentage.
**Based on formula used by Department of Educaton to compute delinquencies.

Dr. COOPER. Unfortunately, I think that the new form which was first submitted by HSA for response by June 30 of this year was a supplement to the annual reporting form. I think you have heard that there is a great deal of confusion among the institutions concerning the conflicting mass of rules and regulations. The regulations for instance, in the national defense student loan program indicate that 120 days is to be used as the delinquency period. As a matter of fact, that was the data which was supplied previously to HSA on the regular annual report. I think this information, unfortunately, was filled out at, for instance, the University of Pennsylvania, by a very low-level person in the business office. It was not filled out by a responsible and knowledgeable individual.

Senator COHEN. The staff advises me they didn't use the University of Pennsylvania in the press release because the university filled out the forms incorrectly. They are included in the aggregate tallys, however. Aside from that, if you would submit your analysis, I would be happy to review it at that time.

You may be correct, perhaps some of this has been overstated.

Dr. COOPER. It is really unimportant. All I wanted to say is that it is very important that we don't overemphasize the degree of the problem. If you look at it in terms of dollars, as Dr. Whiteside has said, if you look at the total program—all of the loans that have ever been made and the deliquency rate on dollars—the degree of delinquency is much, much less. Thus, the percentages of money which is delinquent is much smaller than the percentage of borrowers that are delinquent.

Senator COHEN. Again, this is part of the debate, but I am advised that many of the schools actually understated their delinquency rates. We will make an analysis of that based upon——

Dr. COOPER. I don't know that that is the important point. I think every student ought to repay their loan completely. We will never get to zero percent delinquency. No bank can do it and we won't. But it certainly should be lower.

Senator COHEN. Whether it is overstated or not, I can tell you after having been here 10 years now, the sentiment in Congress is rather strong on this issue. I can recall in the debate on the revision of the bankruptcy law there was an effort made to say students could not be discharged in bankruptcy from their loans.

Dr. COOPER. We supported that bill.

Senator COHEN. You did?

Dr. COOPER. Yes, sir.

Senator COHEN. Saying a student should not be exempted?

Dr. COOPER. They should not be able to discharge their loan in bankruptcy.

Senator COHEN. Mr. Carl, I have to conclude these hearings soon. You have a rather lengthy statement. If perhaps you could summarize it, I will have it included in the record in full. I am sure you are going to give us a different perspective from the students' position.

Mr. CARL. I don't believe too different, sir.

The American Medical Student Association is a national organization of 25,000 students of allopathic and osteopathic medicine attending over 130 schools throughout the United States. We are a completely independent organization committed not only to representa-

tion of our membership but also to advocating accessible, quality health care for all Americans.

We appreciate the opportunity to submit testimony to this committee which reflects the results of our research and concern of our membership regarding the present and future status of the health professions student loan program.

We would like to express our eagerness to work with this committee and with the rest of Congress to minimize the occurrence of student default or delinquency on repayment of all health professions student loans. Student default or delinquency in repayment of loans obtained under any Federal student assistance program is of great concern to us as it undermines the basis for continuation of Federal appropriations for their existence.

Maintenance of the integrity of the health professions student loan program is, however, of specific importance to AMSA because it provides educational assistance in the form of lowered interest rates to students primarily from minorities, lower, and lower-middle income groups. A fundamental principle of our organization is that qualified, properly motivated individuals should have access to medical education regardless of economic status.

HPSL funds have, in recent years, been targeted toward these students and have been instrumental in past increases in their representation in professional medical education.

Although the number of medical students assisted by the HPSL programs has declined in the early 1970's to under 10,000 in the academic year 1980–81, it has been, and remains, an integral component of the financial aid available for the neediest students.

The availability of low-interest loans is imperative if these students are to entertain postponing their entry into the labor market and invest in a lengthy, expensive educational process. Unfortunately, the rapidly escalating costs of obtaining a medical education, combined with decreasing sources of financial aid, has resulted in a decline in the percentage of entering medical students from these who are from minority and lower economic groups since the midseventies.

We believe that because of several features of the HPSL program it can. with appropriate restrictions aimed at minimizing default rates, be distinguished as a particularly cost-effective aid mechanism.

Among these features are that it:

Targets aid to a significant number of students who demonstrated exceptional need;

Provides institutions with flexibility to tailor assistance packages to specific economic needs of students according to institutional or local characteristics;

Provides an option for partial loan forgiveness that serves as an effective mechanism for attracting recipients to service in traditionally underserved areas.

In preparing for this hearing, a random sampling by our organization of schools' collection policies indicated that rates of delinquency and default do not correlate with individual levels of aggregate debt. Nor do increased rates of delinquency or default necessarily correlate with a higher proportion of students at an institution who rely on the HPSL program for aid.

Notable examples from this random sample are Georgetown University School of Medicine and George Washington University School

of Medicine, at which the annual level of tuition and fees are among the highest for private schools in the Nation. Although their students rely very heavily on Federal loan programs in order to decrease their financial burden, Georgetown University School of Medicine, for example, reports an excellent HPSL default rate according to the GAO study.

The success rates of debt collection by these institutions—as well as by many institutions reporting low rates of default—appear to be more closely correlated to the aggressiveness of the debt collection practices employed. While the forbearance period allowed by these institutions is longer than that of some others, the rapid use of collection agencies and attorneys was a frequent occurrence in cases in which failure of an individual to meet installments continued past the period of forbearance.

In our written testimony we have prepresented two current not uncommon financial aid case histories. In one, the student has had to borrow from a number of Federal and private programs and will graduate with an aggregate debt of $76,950. Although escalating debt levels for medical graduates is of concern to AMSA, we feel that the majority of physicians will have sufficient earning levels to meet them. Of greater immediate concern, however, is that at some point early in his or her practice the student will be obligated to make no less than nine separate monthly payments to lending institutions for timely payment of outstanding educational debts.

The levels of monthly installments ranged from $19.25 to $240, totaling $973.82.

With an appreciation of the complexity with which sources of financial assistance are mobilized to meet the needs of the student from a lower or lower-middle economic group, it becomes evident that a strong argument for debt consolidation can be made. We would like to propose that a change in statutes be made enabling loans made under the HPSL program to be integrated into currently existing debt consolidation plans, such as Sally Mae, which is administered by the Student Loan Marketing Association. Originally debt consolidation under this program was limited to guaranteed student loans, but recent action by the Congress in reconciliation allowed health education assistance loans to be included. We believe that the inclusion of HPSL into this program would result in a significant reduction in the rates of student delinquency and default because it offers the student the opportunity of reducing the number of payments made—and thus eliminating much of the complexity of the current financial aid scenario. In addition, it allows more graduated repayment options that can more adequately reflect the more moderate levels of income the physician earns early in practice.

Our second suggestion is graduated repayment options be required of schools, placing the opportunity for such repayment schemes at the discretion of the student. Currently the schools are not required to allow installments to be made under a graduated repayment plan. We feel that this is particularly important for individuals who choose to establish practices in primary care specialties or biomedical research since a significant disparity in earnings potential exists between these career options and practice in, for example, surgical subspecialties.

Senator COHEN. That is sort of a variation on the variable mortgage proposal. You are leaving it up to the recipient.

Mr. CARL. Yes, sir.

Consistent with this goal, our organization has made significant efforts to provide loan funding for individuals entering postgraduate training residency programs and is actively developing and expanding nationwide programs for private debt management.

We are also interested in cooperation with HHS to develop and present debt management counseling services for medical students through our organization's publications and meetings.

We also support increasing the penalty imposed on individuals for delinquency in repayment.

Currently a school may fix a charge "not exceeding $1 for periods up to 1 month or $2 for each succeeding month" for failure of the borrower to pay all or any part of an installment when it is due. We feel that these penalties are too lenient and amount to little more than token measures.

We support implementation of measures that would all but prohibit the ability of borrowers to discharge debts obtained under the HPSL program in bankruptcy proceedings. We suggest the enactment of provisions similar to those dealing with the HEAL program in the Public Health Service Act, which provide that a HEAL loan may be discharged in bankruptcy only after the expiration of the 5-year period beginning when the repayment period for the loan begins.

We do not agree, however, with the initiation of any punitive measures against schools. Any punitive measures such as prohibiting funds collected in the form of repayment to be used as continuing sources of financial aid is not a productive effort in our opinion. Theoretically, such action would be intended to be used against schools failing to meet an arbitrary standard of debt collection.

We do not feel that such efforts would constitute a truly constructive effort on the part of the Congress because the entity that realistically would suffer the most would be the student from a minority, lower or lower middle group who could derive true benefit from the program.

A major goal for our organization is assuring that equal access to medical education be provided to all qualified individuals regardless of economic background. Inherent in this goal is the belief that a profession must draw its members from diverse socioeconomic and cultural backgrounds in order to appropriately and efficiently address the needs of the society which it serves. We hope and believe that we share this conviction with the members of this committee and this Congress, and we pledge our cooperation with you in the continued pursuit of that goal.

I would be happy to entertain any questions.

Senator COHEN. Thank you very much, Mr. Carl.

[Mr. Carl's prepared statement follows:]

TESTIMONY OF THE AMERICAN MEDICAL STUDENT ASSOCIATION

SUBMITTED TO THE

U.S. SENATE GOVERNMENTAL AFFAIRS COMMITTEE

FOR

OVERSIGHT HEARINGS ON THE HEALTH PROFESSIONS STUDENT LOAN PROGRAM

Kathleen Jennison
National President
American Medical Student Association

John C. Carl
Legislative Affairs Coordinator

Patrick S. Romano
Legislative Affairs Coordinator

December 8, 1981

TESTIMONY OF THE AMERICAN MEDICAL STUDENT ASSOCIATION

SUBMITTED TO THE

U.S. SENATE GOVERNMENTAL AFFAIRS COMMITTEE

FOR

OVERSIGHT HEARINGS ON THE HEALTH PROFESSIONS STUDENT LOAN PROGRAM

The American Medical Student Association (AMSA) is a national organization of 25,000 students of allopathic and osteopathic medicine attending over 130 schools throughout the United States. We are a completely independent organization committed not only to representation of our membership, but also to advocating accessible, quality health care for all Americans "regardless of economic status race, creed, national origin, age, sex, sexual orientation, physical handicap, mental handicap or institutionalization for criminal, medical or psychiatric reasons." 1/ We appreciate the opportunity to submit testimony to this Committee which reflects the results of our research and concern of our membership regarding the present and future status of the Health Professions Student Loan (HPSL) Program. In doing so, we will be continuing the long dialogue our organization has had with Congress, providing insight from the perspective of physicians who will be responsible for health care delivery in a time of increasingly limited resources.

The Role of the HPSL Program

We would like to express our eagerness to work with this Committee and with the rest of Congress to minimize the occurrence of student default or delinquency on repayment of all health

professions student loans. Student default or delinquency in repayment of loans obtained under any federal student assistance program is of great concern to our organization, as it undermines the basis for continuation of federal appropriations for their existence.

Maintenance of the integrity of the Health Professions Student Loan Program is, however, of specific importance to AMSA because it provides educational assistance in the form of lowered interest rates to students primarily from minorities, lower and lower-middle income groups. A fundamental principle of our organization is that qualified properly motivated individuals should have access to medical education regardless of economic status. Historically, we have supported congressional actions to improve the representation of minority and low income students in health professions schools. HPSL funds have, in recent years, been targeted toward these students and have been instrumental in past increases in their representation in professional medical education. This effort has been important not only because it redresses previous patterns of discrimination, but also because these students are most likely to contribute to the reversal of the geographic and specialty maldistribution of health manpower--that is, are most likely to practice primary care in underserved areas.

According to a major study completed by the Association of American Medical Colleges (AAMC), 78.8 percent of black medical students expressed interest in a shortage-area practice compared with only 45.6 percent of white students. In addition, preference for primary care and shortage-area practice varied inversely with parental income. Only 37.4 percent of students from families

earning more that $50,000 annually were found to express preference for practice in an underserved area, while 65.1 percent of those from poorest families did. The 1980 report of the Graduate Medical Education National Advisory Commission demonstrated that medical students interested in practicing primary care specialties tended to be older than their peers and came from families with both lower annual incomes and less mean education. 2/

Although the number of health professions students assisted by the HPSL Programs has declined from 35,000 in the early 1970s to under 10,000 in the academic year 1980-81 (that is, from 35 percent to five percent of total enrollment), it has been--and remains--an integral component of the financial aid available for the neediest students (Table 1). A report of the AAMC Task Force on Student Financing found that the HPSL Program was an important factor in minimizing the debt burden on economically disadvantaged students.

Lack of financial resources is one of the major factors which now deters disadvantaged students from pursuing careers in the health professions. The availability of low-interest loans is imperative if these students are to entertain postponing their entry into the labor market and invest in a lengthy, expensive educational process.3/ Unfortunately, the rapidly escalating costs of obtaining a medical education, combined with decreasing sources of financial aid, has resulted in a decline in the percentage of entering medical students who are from minority and lower economic groups since the mid-1970s, from a high of 10.0 percent to 8.7 percent in 1978-79. Similarly, according to an AAMC study, the percentage of all medical students whose fathers are employed as clerical, sales, or

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blue-collar workers dropped from 25.1 percent in 1973-74 to 19.2 percent in 1978-79. 4/ Similar trends characterize many of the other educational programs in the health professions. In light of these circumstances, AMSA is extremely concerned by the action taken by this Congress to eliminate federal capital contributions to the HPSL Program for FY 82. Our concern is based on the significant reduction in monies available under the HPSL that will occur as a direct result of this action. In FY 81, $16.5 million was appropriated for federal capital contributions to this program, and added to the sums returning to the program through loan repayment, which were expected to total some $29 million. In FY 82, however, elimination of federal capital contributions will effect an immediate reduction of about 45 percent in the amount of loan monies available under the HPSL Program, when calculation for an inflation rate of only 10 percent is included. The dependence of students from lower income backgrounds on the HPSL Program will be markedly increased by recent measures taken by this Congress to eliminate aid sources such as National Health Service Corps Scholarships and Exceptional Financial Need Scholarships, and the $80 million cap on HEAL funds that has been requested by the Administration. We sympathize with and share the Committee's desire to maximize the utilization of more cost-effective aid programs which produce greater benefit with less federal outlay. This especially includesthe elimination of default and delinquency rates in the HPSL Program, since such practices dramatically decrease its overall cost-effectiveness. At the same time, however, we hope that the interruption in federal funding of programs such as HPSL is only a temporary reaction to a severe

national fiscal crisis, and that the Congress will reaffirm its commitment to promote equal access to health careers for the disadvantaged. Low-interest loan programs such as HPSL are an important expression of that commitment.

Moreover, AMSA believes that because of several features of the HPSL Program it can, with appropriate restrictions aimed at minimizing default rates, be distinguished as a particularly cost-effective aid mechanism. Among these features are that it:

- targets aid to a significant number of students who demonstrated exceptional need, but who were unable to secure assistance under the Exceptional Financial Need (EFN) Scholarship Program (for example, because they were not in their first year of school), but are not financially able to assume burdensome Health Education Assistance (HEAL) Loans.
- provides institutions with flexibility to tailor assistance packages to specific economic needs of students according to institutional or local characteristics.
- provides an option for partial loan forgiveness that serves as an effective mechanism for attracting recipients to service in traditionally underserved areas.

Delinquency and Default

In preparation of this testimony, AMSA was informed that neither the Government Accounting Office (GAO) preliminary study of 23 medical schools nor the Bureau of Health Personnel Development and Services' analysis of all institutions participating in the HPSL Program had been made available for public distribution. Our personal communication with both of these agencies, as well as with numerous medical school administrations, has elicited a surprising lack of conformity in measurement of the rates of both delinquency and default. It is our belief that such disparity in recording these rates may result to a large extent from inaccuracies in the

survey mechanism employed by the agencies.

Furthermore, we believe that these differences are also largely due to the absence of a standardized definition of "delinquency" and "default" utilized by individual medical schools. In our communications, some institutions indicated they considered a borrower in default immediately upon failure to pay part or all of a single monthly installment. In effect, therefore, these institutions allowed no period of forbearance on the loan. It is not apparent from the data presented in either the GAO or the Bureau of Health Personnel Development and Services' study that institutions with this very limited definition of default had substantially more success in debt collection that did institutions allowing a greater period of forbearance.

We have also found that in certain instances, schools with this limited forbearance reported aggregate default rates— that is, the total number of students having "defaulted" on a single installment in the entire course of repayment. We feel that elevated default rates from such institutions may more accurately reflect institutional policy rather than an inordinate proportion of graduates choosing to default on loan repayment. In our rather small-scale investigation, AMSA has elicited evidence, albeit anecdotal evidence, that individuals were occasionally placed on default lists by institutions even though they had paid the full amount of a routine HPSL billing. This occurred, it turned out, because of an institutional miscalculation of an increase in monthly payment according to a graduated repayment scheme. Thus, the institution was, at fact, in error, although the individual has been included in

the statistics presented at this hearing as a student who is currently in "default." Therefore, such interruptions in repayment can be initiated either by the student or by the institution, and may or may not, in fact, constitute either legitimate "delinquency," much less actual "default," when it is defined as the deliberate failure to continue repayment or inability to do so. We admit that any default rate for the HPSL Program is unacceptable and share concern over existing rates with the members of this Committee. Before accurate evaluation of actual default rates can occur, however, the adoption of a unified definition by all parties is essential.

A random sampling by our organization of schools' policies indicated that rates of delinquency and default do not correlate with levels of aggregate debt of students having graduated from a particular institution. Nor do increased rates of delinquency or default necessarily correlate with a higher proportion of students at an institution who rely on the HPSL Program for aid, which indicates an institutional policy of accepting a larger number of lower or lower-middle income students.

Noteable examples from this random sample are Georgetown University School of Medicine and George Washington University School of Medicine, at which the annual level of tuition and fees are among the highest for private schools in the nation. Although their students rely very heavily on federal loan programs in order to decrease their financial burden, Georgetown University School of Medicine, for example, reports a HPSL default rate of only 0.96 percent, when using a formula which compares the level of original

principle past due with the balance of original principle in repayment. The success rates of debt collection by these institutions (as well as by many institutions reporting low rates of default) appear to be more closely correlated to the aggressiveness of the debt collection practices employed. While the forbearance period allowed by these institutions is longer than that of some others, the rapid use of collection agencies and attorneys was a frequent occurrance in cases in which failure of an individual to meet installments continued past the period of forbearance.

Potential Mechanisms for Reduction of Default and Delinquency Rates

AMSA strongly opposes deliberate action by any individual to default on or become delinquent in the repayment of any loan secured under a program supported by federal resources. We wish to work with this Committee and Congress to eliminate such occurrences through establishment of strict guidelines to assure the full and timely repayment of Health Professions Student Loans under provisions in Subpart C of 42 CFR Part 57, Section 210. While we do not feel that a truly accurate measurement of medical student default and/or delinquency can be made in the absence of unified definitions for each term, we acknowledge that current reports indicate their rates to be unacceptable.

In addition to our questioning of the accuracy of survey mechanisms employed by the federal agencies, lack of unified definitions of "default" and "delinquency," and variations in debt collection practices by various institutions, however, we would like to emphasize the difficulties created when a student must draw from a multiplicity of sources in creating a comprehensive financial aid

package. We shall then propose a number of mechanisms we feel can be of significant use in alleviating these problems. The existence of such a multiplicity of sources is supported by AMSA, in order to address greatly differing levels of need demonstrated by individuals coming from a variety of socioeconomic backgrounds. This large number of sources of financial aid is also necessary in order to have an /equitable distribution of the financial burdens of medical education between the individual and federal, state, and local governments.

Inherent in a system of this complexity, however, is the confusion that it causes both for individuals concerned with the establishment and fiscal management of fledgling practices and for university administrators who must not only face the continuing needs of students currently in attendance who require assistance, but also for debt collection on past loan obligations. Table 2 describes a budget and indebtedness calculation for a typical individual having completed undergraduate medical education in 1978. This individual would begin repayment of each of the six of the educational debts described in the table following completion of postgraduate training. If the physician were to have entered a primary care training program, these debts would come due either in the current or the coming fiscal year, upon completion of postgraduate training. Debt levels seen in Table 2, however, do not reflect many changes in the scenario of resources that have been available to the health profesions student since 1978. Several of the loan programs listed in this table have also been dramatically reduced or eliminated since the 1977-78 academic year.

Table 3 provides a more accurate portrayal of current debt levels for a student who will graduate in the coming year from a private northeastern medical school. This student has had to borrow from a number of federal and private programs, and will graduate with an aggregate debt of $76,950. At some point early in his or her practice, the student will be obligated to make no less than nine separate monthly payments to lending institutions for timely payment of outstanding educational debts. One of the loans the student portrayed in Table 3 must repay has remained from his or her undergraduate career, a period at least seven to eleven years removed from the initiation of repayment. The levels of monthly installments for payment of each of these loans varies, ranging from $19.25 to $240.00, totalling $973.82. If a scheme of graduated repayment has been included as a condition in any of these programs, the levels of the installments affected will be in a continual state of flux.

With an appreciation of the complexity with which sources of financial assistance are mobilized to meet the needs of the student from a lower or lower-middle economic group, it becomes evident that a strong argument for debt consolidation can be made. We would like to propose that a change in statutes be made enabling loans made under the HPSL Program to be integrated into currently existing debt consolidation plans, such as Sally Mae, which is administered by the Student Loan Marketing Association. Originally, debt consolidation under this program was limited to Guaranteed Student Loans (GSL), but recent action by the Congress in Reconciliation allowed Health Education Assistance Loans (HEAL) to be included. We believe that

the inclusion of HPSL into this program would result in a significant reduction in the rates of student delinquency and default because it offers the student the opportunity of reducing the number of payments made--and thus much of the complexity of the current financial aid scenario. In addition, it allows more graduated repayment options that can more adequately reflect the more moderate levels of income the physician earns early in practice.

A second change that the American Medical Student Association wishes to see made within the HPSL Program is that graduated repayment options be required of schools, placing the opportunity for such repayment schemes at the discretion of the student. Currently, the schools are not required to allow installments to be made under a graduated repayment plan. We feel that this is particularly important for individuals who choose to establish practices in primary care specialties, since a significant disparity in earnings potential exists between these career options and practice in, for example, surgical subspecialties. While the average surgeon earned $73,245 in 1976, the average family practitioner earned $46,962. 5/ Extrapolating from results obtained in the GMENAC Report, 2/ efforts should be made to encourage physicians to select practices in primary care specialties, since they currently reflect a greater shortage of physician manpower. Consistent with this goal, our organization has made significant efforts to provide loan funding for individuals entering primary care residency programs, and is actively developing and expanding nationwide programs for private debt management.

We are also concerned about current data that suggest a large loss of physician manpower from academic--and specifically research--

medicine. A recent report commissioned by the National Academy of Sciences expressed the concern that further decreases in such manpower could result in a loss in the nation's ability to perform research that directly affects the transfer of basic science findings to the practice of clinical medicine. 6/ Like the primary specialties, research medicine does not offer the potential for economic reward that clinical subspecialty practice does. If the physician finishing postgraduate training does not have the option of making more gradual debt repayment, we believe that less financially rewarding specialty practices--such as the already underserved specialties of primary care and research/academic medicine-- will suffer proportionately with the exponentially increasing levels of aggregate debt. Thus, it is our contention that programs offering debt consolidation and more graduated loan repayment will result in greater financial access of these specialties both to physicians entering and exiting postgraduate training.

We suggest that standardized definitions of both delinquency and default are essential to the elimination of these problems, only after which schools should be required to report individuals who are delinquent or in default on HPSL repayment. Consistent with this suggestion, we would encourage the amending of laws providing for disclosure of default under this program according to Section 6103 (m)(2) of the Internal Revenue Code of 1954, which states that "the Secretary may disclose the mailing address of a taxpayer for use by officers, employees, or agents of a Federal agency."

We also support increasing the penalty imposed on individuals for delinquency in repayment, as provided for in Subpart C of 42 CFR

Part 57 Section 210 (b)(1). Currently, a school may fix a charge "not exceeding $1 for periods up to one month or $2 for each succeeding month" for failure of the borrower to pay all or any part of an installment when it is due. We feel that these penalties are too lenient and amount to little more than token measures. Therefore, we suggest significant increases in their levels.

Furthermore, we support implementation of measures that would all but prohibit the ability of borrowers to discharge debts in bankruptcy proceedings. We suggest the enactment of provisions similar to those dealing with the HEAL Program in the Public Health Service Act, which provide that a HEAL loan may be discharged in bankruptcy only after the expiration of the five year period beginning when the repayment period for the loan begins.

We do not agree, however, with the initiation of any punitive measures against schools. Any punitive measures such as prohibiting funds collected in the form of repayment to be used as continuing sources of financial aid is not a productive effort in our opinion. Theoretically, such action would be intended to be used against schools failing to meet an arbitrary standard of debt collection. We do not feel that such efforts would constitute a truly constructive effort on the part of the Congress because the entity that realistically would suffer the most would be the student from a minority, lower or lower-middle group who could derive true benefit from the program. A major goal for our organization is assuring that equal access to medical education be provided to all qualified individuals regardless of economic background. Inherent in this goal is the belief that a profession must draw its members from

diverse socioeconomic and cultural backgrounds in order to appropriately and efficiently address the needs of the society which it serves. We hope and believe that we share this conviction with the members of this Committee and this Congress, and we pledge our cooperation with you in the continued pursuit of that goal.

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3. Vivian W. Henderson, "The Impact of the Negro's Economic Status." Paper delivered at the Conference on the Impact of Cultural and Economic Background on Programs to Recruit Negroes for Medicine, (Princeton, N.J.: Josiah Macy Foundation, 1969), pp. 45-54 and 87-97.

4. U.S. House of Representatives Report No. 96-278, pp. 79-81.

5. John C. Gaffney, ed., Profile of Medical Practice, 1978. (Chicago: American Medical Association, 1978), p. 267.

6. On the Status of Medical School Faculty and Clinical Research Manpower, 1968-1990. National Academy of Sciences, Washington, D.C., 1981.

Sources of Loans and Scholarship Funds	1979-80*			1980-81+		
	Amount ($)	Number	Average Amount ($)	Amount ($)	Number	Average Amount ($)
Not Administered By Schools						
Scholarships						
Armed Forces Scholarships	32,557,857	2,990	10,888	38,028,932	3,425	11,103
National Health Service Corps	49,814,806	4,401	11,318	50,110,930	4,079	12,285
National Medical Fellowships	673,230	587	1,146	767,155	631	1,216
Other (service committment)	8,408,755	1,638	5,133	11,107,852	2,628	4,227
Subtotal	91,454,648			100,014,869		
Loans						
AMA-ERF	1,606,393	778	2,064	21,900	12	1,825
Guaranteed Loans**	144,165,371	33,690	4,279	185,438,855	40,687	4,558
Health Educ. Assistance (HEAL)	4,288,689	546	7,854	15,301,921	2,121	7,214
Other Loans	10,397,186	3,959	2,626	9,947,290	3,536	2,813
Subtotal	160,457,639			210,709,966		
College Work Study	1,399,514	1,038	1,346	1,440,727	1,206	1,195
TOTAL	253,311,801			312,165,362		
Administered By Schools						
Scholarships						
Exceptional Financial Need	3,550,966	340	10,444	5,135,160	441	11,644
School Funds	20,671,635	10,847	1,905	23,078,270	11,459	2,014
Other Scholarships	7,792,694	5,789	1,346	8,147,699	5,287	1,541
Subtotal	32,015,295			36,361,129		
Loans						
Health Professions Loans	17,584,271	7,646	2,299	22,684,036	9,208	2,464
United Student Aid Loans	3,104,896	906	3,427	1,465,288	361	4,059
Guaranteed Loans #	6,151,575	1,493	4,120	3,904,911	946	4,128
National Direct Student Loans	17,356,667	8,881	1,954	16,041,387	7,933	2,022
School Funds	8,520,084	5,699	1,495	9,289,575	5,952	1,561
Subtotal	52,717,491			53,385,197		
TOTAL	84,732,786			89,746,326		
GRAND TOTAL	338,044,587			$401,911,888		

*One hundred eighteen schools reported.
**With bank or state as lender.
With school as lender

+One hundred eighteen schools reported. Missing were SUNY-Downstate, Univ. of Chicago, Univ. of Louisville SUNY-Buffalo, Univ. of Pennsylvania, Univ. of Vermont. -Ponce arrived too late to be included, -Uniformed Service Univ. does not charge tuition or fees.

TABLE 1

Table 2

FINANCIAL AID PROFILE OF A STUDENT GRADUATED IN 1978 FROM A PRIVATE NORTHEASTERN MEDICAL SCHOOL

Budget (single)		Resources	
FRESHMAN 1974-75			
Tuition & Fees	3,275	Parents	1,320
Books	225	Summer	600
Instruments	500	Assets	160
Room & Board	1,800	N.J. Loan	2,500
Travel	400	Hlth. Prof.	1,000
Personal	800	AMA	1,500
TOTAL	7,000	TOTAL	7,080
SOPHOMORE 1975-76			
Tuition & Fees	5,100	Parents	1,400
Books	200	Summer	200
Instruments	200	Assets	83
Room & Board	2,200	AMA	1,500
Travel	300	SLF	1,500
Personal	800	N.J. Loan	2,500
TOTAL	8,600	Hlth. Prof.	1,500
		TOTAL	8,683
JUNIOR 1976-77			
Tuition & Fees	5,600	Parents	2,000
Books	200	Summer	400
Instruments	--	Assets	25
Room & Board	3,500	AMA	1,500
Travel	800	Hlth. Prof.	2,000
Personal	1,200	N.J. Loan	2,500
TOTAL	11,300	Med. Soc. N.J.	1,500
		Mason Coun. Med. Soc.	500
		TOTAL	10,425
SENIOR 1977-78			
Tuition & Fees	6,100	Parents	2,000
Books	200	Assets	100
Instruments	--	N.J. Loan	5,000
Room & Board	2,600	Hlth. Prof.	3,000
Travel	900	TOTAL	10,100
Personal	900		
TOTAL	10,700		

TOTAL INDEBTEDNESS

Health Professions Loan	7,700
New Jersey State Student Loan	12,500
American Medical Association Loan	4,500
Student Life Funding	1,500
New Jersey Medical Society	1,500
Mason County Medical Society	500
TOTAL	28,000

Table 3

AGGREGATE LOAN RECORD

Name of Loan	Amt. Borrowed	Int. Rate	Terms & Conditions of the Loan	Min. Pay./Mon.	Tot. Pay./Yr.
HPSL - 7% - 9%	$ 13,400 $	7 %	Grace = 1 year after graduation Deferment = unlimited for postgrad. training Repayment = 10 Yrs	$ 155.71 $	$ 1868.50 $
NDSL - 3%	$ 1750 (undergrad) 3 % $ 5300 (medical)		Grace = 9 months Deferment = fellowships, full-time student Repayment = 10 Yrs	$ 30.00 $ 51.20	$ 360.00 $ 614.38
NDSL - 4%	$ 1900	4 %	Grace = 6 months Deferment = up to 2 yrs. postgrad training, Repayment = 10 Yrs full-time student	$ 19.25	$ 230.9[illegible]
NDSL - 5%	$	%	Grace = Deferment = Repayment = Yrs	$	$
FI/GSL - 7%	$ 13,000 $	.7 %	Grace = 9 months Deferment = up to 2 yrs. postgrad. training, Repayment = 10 Yrs full-time student	$ ~~151.06~~ $	$ 1812.72 $
FI/GSL - 9%	$ $	% %	Grace = Deferment = Repayment = Yrs	$ $	$ $
RWJ	$ 5000	11.5 %	Grace = 3 months Deferment = 3 years-only for postgrad training Repayment = 10 Yrs	$ 70.60	$ 847.20
AMA-ERF	$	%	Grace = Deferment = Repayment = Yrs	$	$
HEAL (Sally Mae)	$ 20,000	12 %	Grace = 9 months Deferment = up to 4 yrs. postgrad training Repayment = 25 Yrs	$ 240.00	$ 2880.00
Other: HEAL	$ 10,000	var. 9 ~~10~~ (est)	Grace = Deferment = same as above Repayment = Yrs	$ 203.00	$ 2436.00
Rotary Club	$ 2600	4 %	Grace = Deferment = Repayment = 5 Yrs assumed	$ 53.00	$ 636.00

TOTAL DEBT - $ 76,950

TOTAL MONTHLY PAYMENT - $ 973.82

TOTAL YEARLY PAYMENT - $ 11,685.84

Senator COHEN. I don't want to reopen the debate on whether these facts are accurate or inaccurate. I could make a case, for example, by saying that only two-thirds of the college or universities even filed their delinquent statistics. So the case could be made that nearly one-third could be added to the $50,000 if you accept that $50,000. But I agree with you, Dr. Cooper. That is not the issue at this particular point.

I also agree that we should not overstate a case and focus upon medical students as the ones to single out. We are trying to conduct through Chairman Percy a broad-based attack on practically every facet of waste that we can find, whether it deals with hurry up spending on the part of agencies, or with contractors who, having engaged in fraud, can be debarred or suspended from doing business with an agency. Yet, they can walk across the street and do business with another agency. That is permitted, too.

I would say, while the chairman is here, that we could, if we are looking for delinquent payments, look to a number of nations who owe us money as well, who are in delinquency as far as their repayments are concerned, and who owe us billions of dollars in cumulative totals.

I don't want our position, or at least for this member's position, to be misrepresented. We are interested in trying to root out waste or inefficient procedures everywhere we can and not single out medical students in particular because of the heavy burdens they do incur. But nonetheless, I think the highlighting of this problem by this committee is probably going to do a great deal more to facilitate the collection of debts than practically anything that can be done.

Dr. COOPER. I agree.

Senator PERCY [presiding]. When you talk about the problem of getting foreign countries to repay debts, I remember the forgiveness program we had with India and the uproar that caused.

It was also my thinking I could finish the business meeting in Foreign Relations in 10 minutes. It couldn't be done.

Senator COHEN. I take my leave, Mr. Chairman.

Senator PERCY. Senator Cohen, I want to thank you very much for chairing the conclusion of the hearing.

I would simply like to add in conclusion that we are fully supportive of everything that medical schools do. I can well remember through my years at the University of Chicago that the students that were premed students were always the ones when we were out someplace doing something else they were still the ones grinding away, working away. It is a tough, hard job. We have the most outstanding medical service in the world. I was not really aware how many times princes, kings, chiefs of state, prime ministers, quietly come to the United States for their medical treatment. We have several chiefs of state here right now from abroad. This is the greatest nation on Earth so far as medical research and medical experience and background and capability. For that reason, we don't want to criticize. What we do want to say is the facts are that these students who get help from their Government quickly get into a position where their earnings are way ahead of the rest of the public. The average surgeon in the United States of America, the last figures we have, which were 1976, are they earned $73,245. Now that has substantially increased in the last 5 years. The average family practitioner earned $46,982.

So with that kind of potential, only due to the financial assistance and help they have received, they ought to put first on their list paying back their Government and not last, as some of them seem to have done from the records we have here.

I want to thank all of our witnesses very much indeed. We will continue to work with them. As I said, this is the fourth hearing we have had in this area. We will not be satisfied until we have the new law in effect. Then we will be having hearings to be sure it is implemented properly. Improved debt collection is fully supported by the Reagan administration now. I believe it will be solidly backed by the Congress. It is only possible because of the help we have had from so many of you today.

The hearing is adjourned.

[Whereupon, at 12:30 p.m., the committee was recessed, to reconvene subject to the call of the Chair.]

11-318 O - 82 - 9

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

AMERICAN MEDICAL ASSOCIATION

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JAMES H. SAMMONS, M.D.
Executive Vice President
(751-6200)

January 8, 1982

Honorable Charles H. Percy
Committee on Governmental Affairs
United States Senate
3306 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Senator Percy:

The American Medical Association takes this opportunity to submit this letter and the attached materials for the record on your December 8 hearing on debt collection programs as they relate to health professions student loans.

The American Medical Association has a long history of supporting the availability of financial aid so that qualified individuals will be able to obtain a medical education. Such support fulfills two purposes: it aids the student in attaining an education, and it is an investment that helps to assure the delivery of medical care in the future. As evidence of this support of financial aid programs for medical students, the American Medical Association Education and Research Foundation (AMA-ERF) Loan Guarantee Program currently has almost $42.5 million in outstanding medical education loans. In addition to the AMA's own activities in this field, the Association has actively supported the Health Professions Student Loan program and other federal and state programs designed to assist medical students. This support has been based on the need to help students meet the very high and increasing cost of a medical education.

The AMA recognizes that it is not possible to lend significant sums of money without some delinquency and default problems. Nevertheless, individuals delinquent in or defaulting on their loans have both a moral and legal obligation to see that their educational debts are fully paid. In discussing financial problems facing medical students, the Association's House of Delegates in December 1981 adopted a series of recommendations "to protect the current high standard of medical education and health care for the future." Pursuant to one of the ten recommendations, the AMA is to:

"Urge medical schools to review the operations of their financial aid offices and make any changes that may seem appropriate and feasible that would assist medical students to find available funds, manage debt responsibly, and minimize abuse of the programs that could discourage aid sources."

It is our belief that financial aid programs, with reasonable payback provisions coupled with persistent collection action, can have the desired result of assisting individuals to attain a medical education with a maximum payback of outstanding loans. It is also important that a loan program not acquire a reputation of being lax in collection. The AMA-ERF has no hesitancy to file suit, in appropriate cases, to collect amounts owed on a past due loan. We try to work out an equitable arrangement before such severe action, but we do not write off a loan without good cause or court action. We urge the federal government and other leaders to take an aggressive posture in collecting past due obligations. Through such collections, coupled with funds paid back in the normal course of the loan programs, funds remain available to assist other deserving individuals.

The American Medical Association would be pleased to work with the various members and committees of Congress to develop effective mechanisms to aid medical students in finding adequate funding to complete their education. In addition, we urge the adoption of equitable methods of repayment that will assure fewer delinquent payments and defaults on government and other educational loans.

Very truly yours,

James H. Sammons, M.D.

JHS:jg
Attachments
0288p

REPORT JJ OF THE BOARD OF TRUSTEES
ADOPTED BY THE HOUSE OF DELEGATES
December, 1981

Introduction

At its 1981 Annual Meeting, the House of Delegates referred nine resolutions concerning financial problems facing medical students to the Board of Trustees. Resolutions 73 and 152 requested that an AMA task force be formed to develop alternative financial aid programs for medical students; Resolution 134 asked the Board of Trustees to investigate the problem of financial indebtedness of medical school graduates. Resolution 128 urged that the AMA Education Research Foundation Student Loan Guarantee Program (AMA-ERF) be resumed. Resolution 151 asked AMA-ERF to develop a new program to be financed by tax deductible physician donations. Resolutions 142 and 148 called on the AMA to encourage U.S. medical schools to provide applicants with information on the costs and sources of financial aid for a medical education and to provide students with debt management training. Resolutions 149 and 150 focused on support for increased state subsidies to medical schools and for legislated guidelines for loans to medical students.

In the school year 1980-81, approximately 65,000 students were enrolled in 126 U.S. medical schools. Financial assistance programs of various descriptions reportedly provided $401,911,888 to medical students; the majority of these dollars was provided by the U.S. government with substantial subsidies for large numbers of borrowers. Most of the funds were distributed through several major program sources as follows:*

Armed Forces Health Prof. Scholarships	$38,028,000
National Health Service Corps	50,110,000
Guaranteed Loans (GSL)	185,438,000
Health Education Assistance Loan (HEAL)	15,301,000
Exceptional Financial Need	5,135,000
Health Professions Loans	22,684,000
National Direct Student Loans	16,041,000
School Scholarships	23,078,000
School loans	9,289,000

Although the direct and related costs of a medical education have increased since the 1980-81 school year, most federal programs and some state programs that assisted students and medical schools directly in recent years are being redefined, reduced, or eliminated for the 1981-82 school year. The reduction in government funds must

*The complete table of "Sources of Loans and Scholarship Funds" will be published in the Medical Education issue of JAMA, December, 1981.

be expected to have substantial impact on both medical schools and individual medical students. Further, the scale of the void that may be created by these reductions likely will frustrate efforts of those who would attempt to replace all the reduced government dollars with funds from other sources. Some medical schools already have announced plans to reduce the size of their first year classes. Additionally, medical students are being confronted with tuition increases averaging approximately 15% in 1981-82.

For many years, the AMA has encouraged medical schools to generate financial support from multiple and diverse sources in order to preserve reasonable self-determination. A variety of support sources now could serve as a fiscal safety net for schools. Students, also, are seeing the variety of financial assistance programs available in recent years significantly reduced and are facing escalating costs. Their options are becoming more limited.

Utilizing funds contributed by physicians, the AMA Auxiliary, and others, and with the cooperation of participating banks, AMA-ERF has been able to arrange and guarantee more than $95 million in bank loans to help medical students and physicians-in-training since 1962, at rates that reflected the cost of borrowing when the loans were made. Regrettably, economic conditions forced lending to be suspended in 1980, and the temporary suspension continues.

The purpose of the AMA-ERF Loan program was to make funds available to medical students in need of supplemental help who had nowhere else to turn. The program was not conceived and is not supported with sufficient resources to respond to the growing demand for basic "first dollar" support of students in medical school, or to the wish for subsidized loans, even if economic conditions were favorable to resumed lending through the Foundation's program.

The AMA-ERF Guaranteed Loan Program has not been abandoned and is fiscally sound with almost $42.5 million in loans outstanding to be repaid on the deferred schedule offered by the program. However, the Foundation has been called to honor its guarantee to banks over the years. Since 1962 the AMA-ERF has been obliged to purchase $7.6 million in defaulted loans from banks and has collected almost $3.7 million on these defaulted accounts; payments continue to be received on much of the balance. In 1980 the AMA-ERF purchased $1,053,156 in defaulted loans, many of which resulted from overextended borrowing by students. Most of these funds will be recovered eventually, but the pressures to overextend borrowing are multiplying for students.

In addition, some state medical societies have organized programs of financial assistance for medical students. The House of Delegates adopted Resolution 81 (A-80) urging state medical societies to establish more student aid programs to be financed by physician contributions.

The need for financial assistance among students is not uniform; medical students represent a wide range of economic circumstances. The costs of a medical education and related expenses vary widely by medical school, individual living standard, and personal situation. A student not selected for admission by a school that he or she could afford to attend may be accepted by another that entails more expense.

Programs

All avenues of financial assistance for medical students have not disappeared. The military plans to contiue its support of medical students in exchange for service after graduation. The National Health Service Corps and other organizations, government and private, will continue aid to some students, but the levels of funding are uncertain and subject to change. Medical schools themselves will likely continue to offer some support for others, primarily those in greatest need.

The Guaranteed Student Loan Program (GSL), a subsidized federal program, will continue to offer loans of $5,000 a year at 9% to medical students. Those whose families earn less than $30,000 per annum are eligible for the loans; students from families which earn more are also eligible if the funds are needed after a required family "contribution" based on income and family size is considered. A student from a two parent family of 4 would be expected to receive $2,500 as the family contribution if the family earned $30,000 in adjusted gross income as reported on the family's 1980 Federal income tax return; a $7,210 contribution would be expected if the family of 4 reported an income of $50,000. If more than one member of the family is enrolled in a postsecondary educational institution, the family contribution is divided among them. A total of $25,000 may be borrowed by a student; as much as $10,000 of that total may be borrowed during premedical training.

The Health Education Assistance Loan (HEAL) Program appears likely to remain available. Currently, medical students and students in certain health profession programs may be eligible to borrow as much as $20,000 a year and up to $80,000 over the years of training, with repayment deferred. Because interest rates on HEAL loans are not subsidized and reflect the cost of borrowed funds in the open market, now 19.25%, the program has not been very popular. A student who borrowed the limit of $20,000 each year and made no payments until on the average three years of residency training were completed (7 years) would owe approximately $214,000 at 19.25% with 25 years to repay. The $200 million budgeted for the program in 1982 could finance 10,000 students in medicine and other health training if all were allowed or needed to borrow to the upper limit, assuming that the program is not reduced again by developments in the economy. HEAL loans may appeal to lenders over private loans since the government guarantee prevents their inclusion in bankruptcy petitions for a period of 5 years after completion of schooling.

Although $20,000 deferred repayment HEAL loans and $5,000 GSL loans will help many students, others may find the amounts inadequate or too costly for their needs if they are to attend the medical schools to which they are accepted. Some of these students might be able to take advantage of either the Health Professions Student Loan program (with $12 million of funds budgeted for 1982) or the Exceptional Financial Need Scholarship program (with a 1982 budget of $6 million). These budgeted limits are below last year's and may be reduced further during the appropriations process. It appears likely that students in need of financial assistance increasingly will be forced to consider the cost of medical education at particular schools when their applications are submitted.

A National Commission on Student Financial Assistance has been established as an independent agency within the executive branch of the federal government to study the wide range of issues and mechanisms of aid for students in all fields of study. The Commission is composed of 12 members: 4 members appointed by the President; 4 members appointed by the Speaker of the House; 4 members appointed by the President pro tempore of the Senate. The Commission was organized in July 1981 and may begin reporting on its studies during 1982. The commission is charged to study and report on the following issues:

1. Means to reduce default and abuse.
2. Appropriate balance between loans and other sources of financing.
3. Adequacy of capital for the need.
4. Impact of various levels of borrowing, grants, and employment on educational performance and career choices.
5. Impact of various levels of parental borrowing on parents.
6. Appropriate annual and aggregate self-help limits and gift aid.
7. Appropriate mechanisms for efficient delivery of student assistance.
8. Appropriate sources of student loan capital considering cost and reliability of capital supply.
9. Appropriate level of public subsidy for the cost of student loans.
10. Impact of the availability of federal student aid on other sources of assistance.
11. Impact of the availability of student assistance from federal sources on educational costs.
12. Appropriate mechanisms for repayment options.
13. Means to remove barriers to capital availability.
14. Cost to the Federal Government of revenue bonds to provide student loan capital.
15. Other considerations.

It appears unlikely that any program or combination of programs supported by privage funds will arise to provide subsidized loans for medical students on a scale to approximate the possible reductions of assitance from the government. This fiscal reality must be expected to affect the number and "mix" of students applying for admission.

The cost of attending medical school has increased sharply for the schools and for the students in recent years, and the number of applicants for each place in first year classes has declined. This is of concern because the AMA believes that medicine must continue to attract the most talented students. Realistic early planning by students combined with increased financial aid, and with the help of knowledgeable advisors can help assure that medicine will not lose the best students to other courses of study and other careers. The AMA-ERF has made grants to help support the activities of the National Association of Advisors for the Health Professions, an organization that includes pre-med advisors. NAAHP may facilitate the increasingly necessary financial planning early in students' school careers, so that cost will not discourage the best students from studying medicine.

RECOMMENDATIONS

The American Medical Association and state medical societies have been and should continue to be sensitive to opportunities to assist medical students directly and through the encouragement of efforts by government and other public and private institutions.

While virtually every activity and enterprise in America is being affected by the condition of the national economy, the Association must continue to act to assure that medical education receives adequate support in order to protect the current high standard of medical education and health care for the future. To this end the Board recommends that the AMA

1. Monitor closely the financial pressures facing medical students and report to the House of Delegates on significant changes that may develop.

2. Offer its advice and counsel to the National Commission on Student Financial Assistance and monitor the Commission's efforts.

3. Continue to carefully examine legislative proposals dealing with financial support for medical students, to support those that are consistent with Association policy and to continue to reexamine the appropriate role of government in addressing the financial needs of medical students.

4. Remind legislators and the public of the public interest in the quality of medical education and the training of students who will be the physicians of the future.

5. Continue to seek financial resources and investigate promising programs in the private sector that might assist medical students in financial need.

6. Encourage state medical societies to urge state legislators to adequately fund and support the medical education systems in their states.

7. Urge each medical school to publicize the cost of attending that medical school to prospective students and to the student advisors at the colleges and universities that are educating significant numbers of their pre-med students, where these can be identified.

8. Continue to urge that medical schools make every effort to generate financial support from multiple and diverse sources in order to preserve reasonable self-determination.

9. Urge medical schools to review the operations of their financial aid offices and make any changes that may seem appropriate and feasible that would assist medical students to find available funds, manage debt responsibly, and minimize abuse of programs that could discourage aid sources.

10. Urge medical schools, even as their budgets tighten, to consider the educational advantages of selecting able and motivated students who reflect an appropriate mix of the range of socioeconomic strata in America.

The Board of Trustees will report to the House of Delegates at the 1982 Annual Meeting on the continuing financial problems of medical students. The Council on Medical Education, the Resident Physicians Section, the Medical Student Section and the Section on Medical Schools will be requested to contribute information and advice in the development of the report.

American Student Dental Association 211 East Chicago Avenue/Chicago, Illinois 60611/312 440 2795

U.N.C. School of Dentistry
Chapel Hill, North Carolina 27514
December 3, 1981

Mr. Allan Mertz
103 Senate Courts Office Building
Washington, DC 20510

Dear Mr. Mertz,

On behalf of the American Student Dental Association, I would like to thank you for meeting with me to discuss the upcoming hearings on loan repayment to the Health Professions Student Loans Program.

We, like a myriad of other collectives, have been greatly affected by the budget cuts the present administration has enacted. As a student group, ASDA has been particularly concerned with cuts in federally subsidized financial aid programs. As you well know, most student financial aid programs under the aegis of the federal government have suffered decreased authorization levels and some have been totally devitalized.

The Guaranteed Student Loan program is the major source of low interest loans for dental students. The Health Professions Student Loans Program, the subject of the upcoming hearings, represents the next major source from which dental students may obtain monies (at a low interest rate) to subsidize constantly escalating educational costs.

Our interest in the proceedings of the December 8th hearing is warranted and our concern is two-fold: Since the HPSL program has received no further funding after fiscal year 1981, the vitality of the loan program is dependent upon the established revolving fund which is functional only if borrowers repay their loans. ASDA has recognized this and has consistently urged and supported any efforts to improve loan collections. On the other hand, we would feel it most unfortunate if hearings designed to promote efficiency in a worthwhile federal program resulted in that program's very demise due to bad publicity.

You have assured us that Senator Percy and his staff feel the HPSL program is a valuable and worthwhile federal endeavor, so we trust that it will be made known that, while the default rate is indeed a problem with which the government must deal, the large majority of HPSL's and their equivalents are repaid and that the very presence of such programs insures the supply of competent, highly trained health professionals who maintain the high standard of health care Americans enjoy.

Again, thank you. If the ASDA may be of any help, please feel free to contact us.

Sincerely,

Linda Gibson

Linda Gibson
Legislative Representative, ASDA

cc: Ms. Julia Hinsley
Mr. Hal Christensen

MEHARRY MEDICAL COLLEGE
OFFICE OF THE PRESIDENT

December 17, 1981

Senator Charles H. Percy
4321 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Percy:

Please include in the record of the Senate Subcommittee on Government Processes the enclosed status report on our Health Professions Student Loan Program.

In my opinion the College is doing an outstanding job to reduce the delinquency rate and the current statistics reflect this performance.

Sincerely,

Richard G. Lester, M.D.
President

cc: David Mertz
Fred D. Poellnitz

Meharry Medical College

Health Professions Student Loan Program

Status Report

The Meharry Medical College has significantly reduced the delinquency rate of the Health Professions Student Loan Program over the last two years. Between 1978-79 and 1980-81, the number of borrowers of the loan program increased 13% (731 to 823); however, during this same period, the number of delinquent borrowers and the total delinquent dollar amount decreased approximately 50%.

The achievements were made because the College established a Student Loan Collection Office within the Department of the Treasurer, Division of Business and Finance. During June 1979 the director of this office was provided extensive orientation and training by student loan collection personnel at Georgetown University. The office implemented the following to strenghten and improve collection efforts:

1. Increased the recovery rate of loan program by:

   a) securing current addresses for borrowers to assure proper and timely billing.
   b) supporting the efforts of our collection agencies.
   c) providing verification of debt information to borrowers.
   d) placing a hold on all student records of borrowers with delinquent obligations through the Office of Admissions and Records.

2. Revised exit interview process.

3. Developed a manual outlining standard operating procedures for the office.

4. Developed a series of form letters to implement due diligence requirements.

5. Organized a filing system to reflect borrower categories as a means to increase the efficiency of data retrieval.

6. Maintained compliance with federal regulations by:

   a) reviewing all current guidelines.
   b) continuing to implement due diligence requirements.
   c) attending workshops and conferences on federal loan programs.
   d) preparing annual reports as required.

At the end of the first year, the delinquency rate on number of borrowers was reduced from 73% to 42%, and on dollar amount from 39% to 19%.

Other accomplishments of the office that have increased productivity and efficiency are:

1. Authorization to refer delinquent Health Professions Student accounts to an outside collection agency and charge the expense to the loan fund was secured from the Department of Health and Human Services.

2. Sixty five percent of borrowers with bad addresses were located and billed on a timely basis.

3. Administrative cost were reduced by changing from a collection agency charging 33 1/3% to one charging 25%. The new arrangement gave excellent results representing a 35% recovery rate.

4. More rigorous controls for monitoring collection and billing activity were implemented. This has maximized the benefits received from our billing agent.

5. The following stricter fiscal controls over revenue collected by collection agencies were implemented:

   - total monies collected come directly to the Institution.
   - agency commission is no longer netted out prior to sending collections, but is paid as any vendor bill.

At the close of fiscal year 1980-81 the delinquency rate based on number of borrowers was reduced to 36% and on dollar amount was 19%. Actual cash collected was $178,000.00 representing a 30% increase over the last fiscal year.

The Collection Office will continue intensive efforts to improve the loan recovery rate of this program with the ultimate goal of meeting federal requirements.

ANNUAL STATISTICS

Year 1978-79

Fund Federal capital contribution
Medical Non-Revolving

1.	Total # of Borrowers	731	$ 1,364,762.
2.	Number of borrowers with retired loans	34	$ 31,216.
3.	Number of borrowers with grace status	0	$ 0
4.	Number of borrowers with student status	61	$ 82,495.
5.	Number of borrowers with deferment status	0	$ 0
6.	Number of borrowers with delinquent status	467	$ 489,533.
7.	Number of borrowers with Matured Paper	636	$ 1,251,051.

(Item 1 minus Items 2,3,4,5 = Item 7)

Delinquency Rate based on # of borrowers = delinquent # of borrowers / # of borrowers with matured loans $\frac{467}{636} = 73.43\%$

Delinquency Rate based on dollar amount = delinquent amount / amount of matured loans $\frac{489,533.}{1,251,051.} = 39.13\%$

Year 1979-80

Fund Federal capital contribution Medical Non-Revolving

1.	Total # of Borrowers	792	$ 1,447,267.
2.	Number of borrowers with retired loans	44	$ 45,603.
3.	Number of borrowers with grace status	0	$ 0
4.	Number of borrowers with student status	31	$ 46,239.
5.	Number of borrowers with deferment status	0	$ 0
6.	Number of borrowers with delinquent status	298	$ 250,970.
7.	Number of borrowers with Matured Paper	717	$ 1,355,415.

(Item 1 minus Items 2,3,4,5 = Item 7)

Delinquency Rate based on # of borrowers = delinquent # of borrowers / # of borrowers with matured loans = $\frac{298}{717} = 41.56\%$

Delinquency Rate based on dollar amount = delinquent amount / amount of matured loans = $\frac{250,970}{1,355,415} = 18.52\%$

Year 1980-81

Fund Federal capital contribution
Medical Non-Revolving

1.	Total # of Borrowers	823	$ 1,493,496.
2.	Number of borrowers with retired loans	63	$ 71,354.
3.	Number of borrowers with grace status	18	$ 36,685.
4.	Number of borrowers with student status	67	$ 143,581.
5.	Number of borrowers with deferment status	3	$ 7,400.
6.	Number of borrowers with delinquent status	241	$ 238,733.
7.	Number of borrowers with Matured Paper (Item 1 minus Items 2,3,4,5 = Item 7)	672	$ 1,234,476.

Delinquency Rate based on # of borrowers = $\frac{\text{delinquent \# of borrowers}}{\text{\# of borrowers with matured loans}}$ $\frac{241}{672}$ = 35.86%

Delinquency Rate based on dollar amount = $\frac{\text{delinquent amount}}{\text{amount of matured loans}}$ $\frac{238,733}{1,234,476}$ = 19.34%

nasfaa

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

1776 Massachusetts Avenue, N.W., Suite 100, Washington, D.C. 20036
Phone (202) 785-0453
Hotline (202) 785-0451

December 21, 1981

Senator Charles H. Percy
Chairman, Subcommittee on Energy,
Nuclear Proliferation & Government
Processes
4321 Dirksen Senate Office Building
Washington, D.C. 20510

Mr. Chairman:

We appreciate the opportunity to submit this Statement for the Record regarding the debt owed the United States resulting from loans to students under the Health Professions Student Loan Program.

The National Association of Student Financial Aid Administrators represents over 2500 postsecondary educational institutions across the country. Many of these institutions administer programs which assist students enrolled in health-related courses of study.

In the beginning let me say that we certainly applaud the efforts of you, Senator Sasser and others on the Committee in identifying workable methods and procedures to reduce the overwhelming debt owed to the Federal government. We are not unfamiliar with previous efforts in this regard. For the past several years, our Association has worked closely with the Department of Education in its efforts to reduce the debt resulting from National Direct Student Loans. The Education Department has, as you are probably aware, made great strides towards lowering the default rates in this program. The task has not been an easy one and has achieved positive results because of the commitment shared by many involved parties. We represent but one of the parties which has an interest in this effort, institutions. We are, however, anxious and willing to assist you, members of the Committee and the Department of Health and Human Services in any way to achieve the common goal of reducing the nation's debt.

The Health Professions Student Loan Program has, since its enactment in 1963, assisted many students in achieving their educational goals and objectives. The field of medicine is not an inexpensive venture, and without the help that this program has provided through the years, many of our less fortunate students would not have been able to pursue such studies. Likewise, many members of our society would not have benefitted from the services that have been made available through our efforts to educate professionals in the health-related fields if we had not had the means to assist students.

Because of the favorable terms of the HPSL Program and since participation is limited to students of exceptional financial need, the program has been particularly helpful in providing educational access to students from low income families. The extraordinary cost of medical education makes programs of this type essential if we are to prevent the exclusion of lower income students from these career choices. At the same time, however, we understand the grave concern over the debts owed to the Federal government and would like to simply make some observations regarding this issue.

While we agree that some institutions have been careless in their administrative responsibilities in this program, we would suggest that more careful monitoring by the Department of Health and Human Services is also in order. It would appear that the Department has been somewhat remiss in its responsibility to institutions in providing adequate regulations and guidelines regarding the effective administration and efficient collection practices in this program. We would not attempt to place total blame on either party, but rather we would encourage a more cohesive partnership and dedicated commitment to resolving the issue.

We have also observed some confusion resulting from the absence of any coordination between agencies administering loan programs. Given the emphasis of the Committee's activities in lowering the national debt, it would seem that one of the first steps should be focused towards similar standards and expectations in all of the existing loan programs.

The Administration has, under Executive Order 12291, confirmed its commitment and overall objective of reducing regulatory burdens specifically with respect to paperwork and compliance requirements.

One of the most glaring differences between two of the loan programs administered by institutions, National Direct Student Loan and Health Professions Student Loan, is the recognition in the NDSL Program, or lack of recognition in the HPSL Program, of delinquency rate.

In any business which involves the collection of funds, delinquency rates are an important management control measurement. The method by which collection default rates are measured must reflect the objectives of the program.

The National Direct Student Loan Program objective focuses on the amount due and reflects normal collection practice by allowing institutions to consider those borrowers who are making "reasonable progress" towards eliminating their obligation as not in default.

The Health Professions Student Loan Program, on the other hand, has no such clearly defined objective. The implication is, at this point, however, to minimize the number of borrowers who are delinquent or in default. We would suggest that since one borrower may have several loans under the same program, this approach does not provide a true picture of the delinquency or default rate.

Another inconsistency between the two programs involves the assignment of notes to the government for collection. The NDSL Program has clearly established procedures for such transactions which are monitored closely by the Education Department. The HPSL Program does not provide such an avenue for institutions except in those few cases where loans which prove to be truly uncollectible can be written off. The inability of institutions to assign or refer such loans to the government leaves large sums in payment status when in fact the institution has exercised appropriate procedures in its attempts to collect the monies. The absence of any skip tracing provisions leaves the institutions with no alternative method of tracking the delinquent borrower. In addition, any review of the delinquency rate in the HPSL Program reflects cumulative data since the inception of the program.

Our experience indicates that a centralized, coordinated collection activity at the institutional level can achieve far more positive results than a decentralized effort. The key to a centralized collection effort is communication. While we understand that the nature of professional advancement in medicine, particularly, requires that physicians rely heavily on their medical schools for future professional contacts, recommendations, etc., we would not subscribe to the theory that

a decentralization to collections will solve the problem of delinquency or default. Such an approach could prove to be financially prohibitive for a number of institutions and could potentially create mass confusion on the part of borrowers and institutions unless the system is extremely well-organized and carefully monitored.

We would encourage instead a better system of communication between the individual departments of an institution and the central collection department. We would also stress the importance of using trained professionals in the collection activity, supplemented by outside servicers and agencies. If our understanding is correct, we also object to the Department's current policy which requires institutions to obtain permission from the Department before employing outside assistance.

Another contributing problem involves the difficulty that institutions have in obtaining deferment requests from borrowers who are eligible for legitimate deferments. The problem is further complicated by the unlimited number of years that a medical student may defer payment if he or she is pursuing advanced training. One other related problem occurs because of the HPSL regulatory requirement of annual certification of deferment status resulting from armed services duty. For example, when a borrower joins a branch of the armed services for a period of three years, he or she is entitled to a deferment for the entire period. An annual reconfirmation of status is not only unnecessary, but it places undue burden on the institution.

In any event, borrowers do procrastinate in filing legitimate deferment requests and often appear in delinquent or default status unnecessarily. While we unfortunately are not offering a solution to this problem, we do believe that it should be carefully reviewed in the hope that a viable alternative can be found.

Two approaches have worked well and have contributed to the success of institutions in not only lowering the default rates in the National Direct Student Loan Program, but in improving the overall administration of the Title IV student aid program -- (1) a national training effort sponsored by the Department of Education and administered by a Consortium composed of the American Personnel and Guidance Association (APGA), the National Association of College and University Business Officers (NACUBO), and the National Association of Student Financial Aid Administrators; and, (2) a series of annual loan collection workshops sponsored and conducted by NACUBO and NASFAA.

The national training effort is in its eighth year of existence and provides some 120 training opportunities for financial aid administrators and business officers annually. The NACUBO/NASFAA loan collection workshops provide six such opportunities at different locations across the country each year. We would encourage the Department of Health and Human Services' consideration of this type of approach.

In conclusion, I would appeal to the Committee for its serious consideration of encouraging solutions to the problem which will reduce regulatory and administrative burdens on institutions. Once again, we appreciate this opportunity and would like to emphasize NASFAA's willingness to assist the Committee and the Department of Health and Human Services in any way.

Sincerely,

Dallas Martin

Dallas Martin
Executive Director

DM:atw

WAYNE STATE UNIVERSITY

SCHOOL OF MEDICINE

GORDON H. SCOTT HALL
OF BASIC MEDICAL SCIENCES
540 EAST CANFIELD AVENUE
DETROIT, MICHIGAN 48201

OFFICE OF THE DEAN

December 4, 1981

The Honorable Charles H. Percy
Senate Governmental Affairs Committee
3306 Dirksen Senate Office Bldg.
Washington, DC 20510

Dear Senator Percy:

These are trying times. Individually and collectively we face a most difficult period. As administrators and educators in the health professions field, we are particularly concerned about the effects the severe cuts in student aid programs and particularly the health professions programs will have on our students and our institution.

It is my understanding that the Senate Governmental Affairs Committee, on which you serve, will be evaluating the Health Professions Student Loan Program and the repayment and collection procedures.

I would like to share with you some information about Wayne State University School of Medicine. We are one of the larger medical schools in the country with an enrollment of 1,024 students. Each year we graduate approximately 256 medical doctors. Our school is situated in the inner city of Detroit which has long been subjected to recessions and unemployment.* Living in this immediate area are a majority of Minority (non-white) people. Our student body is representative of the population we serve.

*Official 3rd quarter, 1981 unemployment totals for the City of Detroit.

14.1%	(90,100)		Non-white:	28.8%
Youth:	(16-19)	29.4%	Non-white:	68.2%

We want you to know that the Health Professions Student Loan Program has been a major source of support for that segment of our student polulation which has "high need". One hundred and eighty-five (185) students who received this loan in 1980-81 would have found it virtually impossible to complete the school year without this aid. To deny these capable and qualified young men and women the access to a medical education solely because their families are unable to provide them with the necessary funding, would indeed be a travesty.

The following information will document the history of repayment of Health Professions Loans by our students from the inception of the program up to and including June 30, 1981.

Category	#	Amount
Borrowers	1612	$5,397,638
Fully repaid	286	417,845
Current students	247	688,105
Grace period	116	631,780
Deferments	249	1,057,565
In repayment	504	1,778,113
Bankruptcies discharged	3	11,400

Loans Due	#	Amount
*1-180 days	56	$211,377
**181 days - less 2 years	42	191,075
Less than 3 years	31	130,078
Less than 4 years	25	85,950
Less than 5 years	9	36,800
Less than 6 years	10	43,550
Over 6 years	34	114,000

*Please consider that these persons are probably interning and may be in the process of requesting deferments. It would serve no real purpose to assume that their loan obligations will not be met.

**Consider further that these persons are probably serving in their residency programs. Their earnings are not great and their costs for basic living expenses must be paid. My observation would dictate that these people will meet their loan obligations as soon as they complete their training and begin to have real earnings beyond their basic expenses.

Based on these assumptions, I would acknowledge that we have a total of 109 delinquent accounts for a total sum of $410,378 or 6% of the loan recipients.

If we include ** the total would be 151 delinquent accounts for a total sum of $601,453 or 9% of the loan recipients.

Please consider the fact that a large number of our graduates practice in a depressed area where the income is minimal for medical doctors. You will concur with me that the service we perform to that needy population far outweighs the delinquent accounts for our institution.

Please do not hesitate to contact me if there is any assistance I can be to you in your committees' deliberations. I urge your full support for the continuation of this very vital program for the health professions.

Thank you.

Very truly yours,

Henry L. Nadler, M.D.
Dean

HLN/kmp

CHARTS PRESENTED AT HEARING

HEALTH PROFESSIONS STUDENT LOAN PROGRAM

	BORROWERS			PRINCIPAL OUTSTANDING	PRINCIPAL DELINQUENT
	Non-Delinquent	Delinquent	%Delinquent		
Medical Schools	30,463	5,716	15.80	16,439,060	4,410,433
Osteopathic Medicine	2,160	143	6.21	154,793	109,370
Dentistry	16,130	3,418	17.49	8,593,008	2,567,463
Optometry	1,066	265	19.91	438,209	127,573
Pharmacy	11,837	2,214	15.76	3,584,134	1,149,901
Podiatry	1,158	475	29.09	941,005	240,407
Veterinary Medicine	4,076	394	8.81	1,130,684	212,272
Associate Nursing	12,819	16,639	56.48	13,390,834	6,087,573
Diploma Nursing	9,961	5,311	34.78	3,874,285	2,120,123
Baccalaureate Nursing	26,620	15,145	36.26	15,337,400	5,847,566
Graduate Nursing	854	665	43.78	669,797	209,648
GRAND TOTAL:	117,144	50,385	30.08	63,553,210	23,082,329

OVERDUE MEDICAL SCHOOL LOANS: IN BORROWERS
(As reported by schools on June 30, 1981)

	Total # of loans fully paid-or in repayment status	Total # of loans in repayment status	# of all loans 90+ days overdue	% of all loans 90+ days overdue	% of loans in repayment status 90+ days overdue
University of Alabama in Birmingham	594	499	124	20%	25%
University of Arizona	246	221	104	42%	47%
Boston University	527	427	159	30%	37%
University of Florida Gainesville	426	300	86	20%	28%
University of Hawaii at Manoa	124	102	21	17%	20%
Howard University	836	700	470	56%	67%
University of Illinois Medical Center	1,969	1,109	230	12%	21%
University of Maryland Professional Schools	1,250	1,007	391*	31%*	39%*
Meharry Medical College	735	672	241	33%	36%
University of Miami	n/a	752	184	n/a	24%
New York University	818	717	239	34%	33%

*Includes accounts 30-90 days overdue

OVERDUE MEDICAL SCHOOL LOANS: IN BORROWERS
(As reported by schools on June 30, 1981)

	Total # of loans fully paid or in repayment status	Total # of loans in repayment status	# of all loans 90+ days overdue	% of all loans 90+ days overdue	% of loans in repayment status 90+ days overdue
New Jersey Medical School (Newark)	604	495	106	18%	21%
Rutgers Medical School	214	178	36	16%	20%
Virginia Commonwealth University	925	704	186	20%	26%
Wake Forest University	607	466	109	18%	23%

OVERDUE MEDICAL SCHOOL LOANS: IN DOLLARS
(As reported by schools on June 30, 1981)

	All dollars repaid or overdue♦	Dollars in repayment status repaid or overdue♦	Dollars 90+ days overdue♦	% of all dollars 90+ days overdue	% of dollars in repayment status 90+ days overdue
University of Alabama in Birmingham	513	387	140	27%	36%
University of Arizona	151	129	47	31%	36%
Boston University	648	459	117	18%	25%
University of Florida Gainesville	620	481	75	12%	16%
University of Hawaii at Manoa	116	94	13	11%	14%
Howard University	1,307	1,145	796	61%	70%
University of Illinois Medical Center	1,490	711	220	15%	31%
University of Maryland Professional Schools	1,370	933	189*	14%*	20%*
Meharry Medical College	508	436	239	47%	55%
University of Miami	804	697	169	21%	24%
New York University	700	478	71	10%	15%

♦ In thousands of dollars
* Includes accounts 30-90 days overdue

OVERDUE MEDICAL SCHOOL LOANS: IN DOLLARS
(As reported by schools on June 30, 1981)

	All dollars repaid or overdue	Dollars in repayment status repaid or overdue	Dollars 90+ days overdue	% of all dollars 90+ days overdue	% of dollars in repayment status 90+ days overdue
New Jersey Medical School (Newark)	701	492	62	9%	13%
Rutgers Medical School	102	96	20	20%	21%
Virginia Commonwealth University	870	589	131	15%	22%
Wake Forest University	544	361	98	18%	27%

HARVARD UNIVERSITY*

DELINQUENCY RATE BASED ON HARVARD'S INTERPRETATION

Accounts in Repayment	Delinquent	Delinquency Rate
890**	43	4.7%

**Includes dental students

* Note: The Harvard delinquency statistics have been provided seperately from the other schools because the Committee has completed a case-by-case review of their data. The discrepencies in the interpretations of the data illustrate the problems created by a lack of guidance from HHS in providing standard formulas for cumputing delinquency rates.

DELINQUENCY RATE BASED ON OMB/GAO/HHS INTERPRETATION

Accounts in Repayment	Delinquent	Delinquency Rate
713**	170	24%

**Does not include dental students

HARVARD ACCOUNTS IN REPAYMENT

Number of Accounts	Status of Account	Harvard University considers account overdue	HHS/OMB/GAO consider account overdue
657*	Current		
8	Awaiting deferment documents		X
11	Hardship--rescheduled debt		X
12	Harvard University underbilled		X
28	Posted wrong account		
44	Harvard University added too long of a grace period before payment		X
84	Paying less than loan agreement, but have made some payment in last 90 days		X
21	Paying nothing, or less than loan agreement with no payments in last 90 days	X	X
22	With collection agency or attorney	X	X

*Includes dental school accounts